Bradford & Bingley Transformation & Decline: 1995 – 2010

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Abstract

The recent financial and economic crisis, which affected many financial institutions in the UK, created the need to investigate and understand how the crisis affected these institutions. Consequently, numerous official reports and academic studies have been written, particularly on Northern Rock, examining the financial impact on, and business strategies of, these institutions. However, comparatively, there has been little empirical investigation into the board processes that contributed to the decisions made by the management of these affected institutions leading up to the crisis. Of particular interest to research are the demutualised building societies. They were unlike the large universal banks, who engaged heavily in investment banking and were trading on their own account; yet their organisational outcomes, in particular receipt of government support, were similar.

This study focuses on the case of the former Bradford & Bingley Building Society (B&B), the last building society to demutualise, and investigates its transformation and decline over the period 1995 – 2010. The investigation adopts a novel approach by combining the Corporate Governance Life-Cycle with the Upper Echelons Perspective to examine structural and behavioural changes of the board and its governance functions, during the transition of Bradford & Bingley, from building society to bank and nationalised institution. Using a variety of sources, including interviews with directors, official documents, financial records, and newspaper articles, the transformation of B&B is examined through a historical lens.

The thesis argues that life-cycle stages should not be seen as periods with well defined boundaries, but rather overlapping periods of varying length, where each period has distinct characteristics that distinguish it from another. Furthermore, the importance of each corporate governance function changes gradually over time within each stage. Moreover the interviews revealed that directors considered there to be a general hierarchy of governance functions, where determining strategy was considered to be their prime responsibility, contrary to what is suggested in agency theory.

In addition, the context of Top Management Team (TMT) decision-making using the upper echelons perspective is analysed. The findings suggest that firm culture and wider economic environment are important factors impacting the constructs of the upper echelons perspective and hence decision-making. In particular, the corporate governance functions are central to describing the state of the firm. Also major external events, as well as management decision-making, influence the life-cycle progression of the firm.

In summary, the study reflects different life-cycle stages, ownership patterns and regulatory environments in its exploration of board processes and transformation at Bradford & Bingley. This thesis thus contributes to the ongoing debate on the shifting UK corporate governance code, which recognises that appropriate board structures and non-executive director independence are not sufficient to have an effective board, but that board effectiveness depends on TMT behaviour. In this context, boardroom culture has emerged as the major determinant of the effectiveness of board processes.

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Thank you.

Author's Declaration

I hereby certify that this thesis is entirely my own work and has not been taken from the work of others, save, and to the extent that such work has been cited and acknowledged in the text of my work.

Matthias Hambach

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Chapter 1

1 Introduction

1.1 Introduction

The ongoing financial and economic crisis has resulted in discussions of the relative merits of for-profit and mutually-owned financial firms. Indeed the current conservative government has called for a stronger mutual financial sector to offer true competition to the established high street banks that played a large part in causing the current problems (Treasury, 2012a; Treasury, 2012b).

However, the crisis affected both UK mutual and for-profit financial institutions. Financial institutions severely affected in the crisis include the mutually-owned Co-operative Bank, a number of small and medium-sized building societies (for example Scarborough, Gainsborough, Dunfermline), large commercial banks such as Halifax Bank of Scotland (HBOS), Lloyds TSB and Royal Bank of Scotland (RBS), as well as former building societies such as Northern Rock (NR) and Bradford & Bingley (B&B). This underlines that failure is not exclusive to either type of organisation. In particular, the Co-operative Bank's attempted purchase of Lloyds TSB branches would have created a new large mutual financial service provider, if not for the problems encountered by the Co-operative Bank. This serves as a reminder that a firm’s fate is determined by its internal governance functions, as much as it is by wider forces operating in the economy.

Consequently, the need has arisen for an investigation and understanding of the causes of failure of these financial institutions. This is due to the enormous impact of their actions on government finances, contributing to the ongoing fiscal austerity for the majority of taxpayers. Of particular interest to this thesis are the failures of the converted building societies. These institutions converted from building society to bank and transformed their business model from predominantly savings and loans to commercial banks, offering a range of services outside their traditional domain. However, they were still unlike the large universal banks, who engaged heavily in investment banking and were trading on their own account; yet the organisational outcomes of converted building societies and established banks were similar. Examining the transformation of converted building societies to banks, therefore, offers an insight into the changes of governance and composition of the board of directors. Furthermore, it offers an opportunity to study how their transformation and subsequent demise is linked to the decision-making of the board of directors.

Demutualisation and failure

Since the 1980s many public services have been privatised in the UK. Similarly, mutuality was seen as an outdated form of organisation and thus there was pressure to be 'en vogue' and jump on the bandwagon of ‘profits and economic well-being’ (He & Baruch, 2009; Birchall, 2008). The enactment of the 1986 Building Societies Act resulted in several building societies choosing to transform into bank holding companies. Ten building societies demutualised between 1989 and 2000 (see Figure 1.1), with Abbey National floating in 1989 and Bradford & Bingley becoming the last building society to demutualise in 2000.

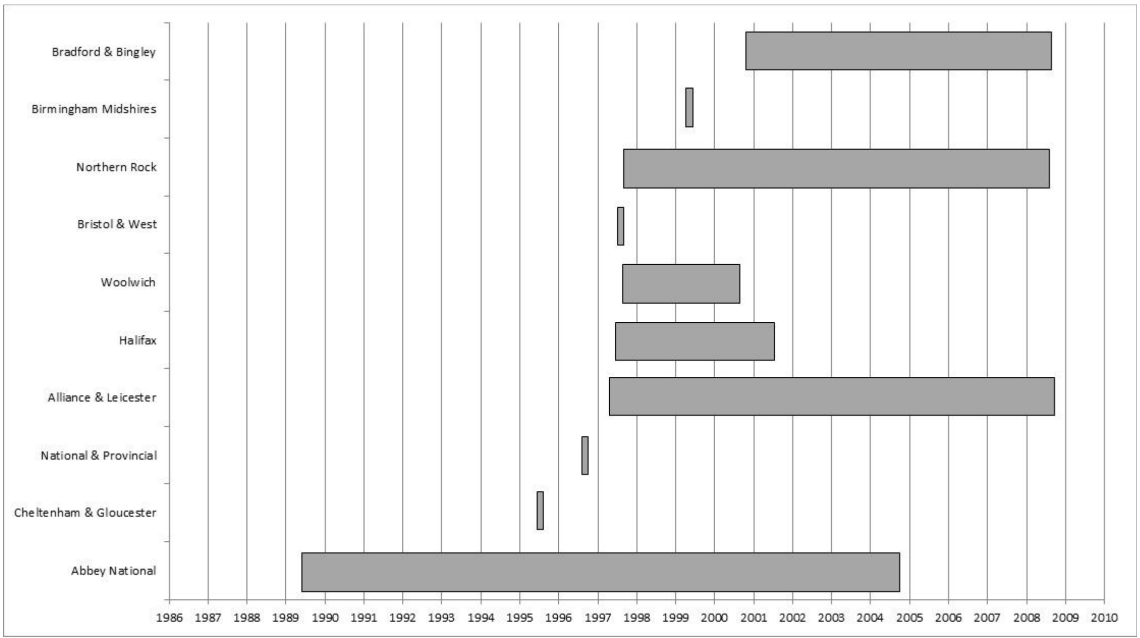

Figure 1.1: Lifespan of Demutualised Building Societies 1986 – 2010

It is of note that none of the demutualised building societies is still independent today. All of them are either bankrupt, taken over by a competitor, or both, suggesting that demutualisation was not successful in the long-run. Furthermore, in a study by

Piesse & Townsend (1995), the authors measured the productive efficiency of UK building societies and found that, interestingly, nine of these demutualised societies were listed as part of the top eleven most efficient societies. This raises questions with regards to the success of the demutualisation process and the underlying motivations, as well as how these building societies managed while being active and independent.

There is no single reason why these newly formed plcs were unable to maintain their independence. For one, it could be that they were economically unsuccessful, with Northern Rock, Bradford & Bingley and Halifax being all but the most egregious examples, and hence mergers or nationalisation were the only possible solution. Alternatively, some demutualised building societies, such as Cheltenham & Gloucester, were taken over by larger high street banks to be added to their product line-up exactly because they were relatively successful. Mergers between banks and mutuals could then be grounded in the economies of scale (Piesse & Townsend, 1995) that would be achieved by taking such a course of action. Thus the reasons for their disappearance are multiple and complex.

Nevertheless, demutualised building societies are not the only ones to run into financial difficulties[1], again illustrating demutualisation itself may not be the cause of their demise. For example, the fate of several building societies such as the Dunfermline, Cheshire, Derbyshire, Chelsea or Norwich & Peterborough, which have all been taken over by either the Yorkshire or Nationwide Building Societies, raises questions about the quality of decision-making and corporate governance arrangements in these institutions. Thus, the failure of demutualised building societies and building societies alike, as well as the move into complex financial derivatives by some, does again not only raise questions about the efficiency and quality of corporate governance in the failed institutions, but also poses the question as to how others avoided catastrophe.

The board of directors, as the main decision-making body of the firm, plays a pivotal role in this context. It is with them, that the final decision and responsibility rests and who are accountable to the principals of the firm. The role of the board of directors differs with the different organisational form that for-profit and mutual firms

1 for example, see http://www.guardian.co.uk/business/2010/sep/12/worlds-safest-banks

adhere to. In for-profit enterprises the board of directors acts as agents of the principal to further the principal's interest. Similarly, in a mutual firm the board acts on behalf of the principal furthering their interests. However, the differing nature of the principal fundamentally alters the role and responsibility of the agent in both forms of organisation. In the for-profit enterprises the disjointed nature of the principal–customer relationship makes the board of directors accountable to a single objective: to further the interest of the principal, which generally is to increase the value of their ownership stake. On the other hand, in a mutual organisation the principal and customer are the same, hence the objective of the board of directors is to be the steward of the principal, and thus the customer's wealth.

Since mutual firms do not pay dividends or disperse profits in any other monetary form, all earnings are retained within the firm. Many mutual firms have accumulated substantial retained earnings which are also called an intergenerational endowment. As previously mentioned, one objective of the management of mutual firms is thus the stewardship and growth of the endowment so it can be passed on to future generations. Therefore, agents in a mutual enterprise are required to act as stewards on behalf of all former, current and future generations of members. The second objective of the board of directors is to maximise value to customers, which, in the case of building societies, amounts to a minimisation of the spread between the borrowing and lending interest rates paid by customers.

Thus, given these differences in corporate form and yet similar outcomes between demutualised building societies and other mutual financial firms, it is imperative to study the development of corporate governance and transformation of demutualised building societies prior to their failure as financial institutions. Demutualised building societies went through a number of strategic and organisational reorientations during the period of study, thus allowing for a longitudinal study of transformation and organisational change. In particular, the legal and regulatory framework in which they operated changed significantly, giving the board of directors a fundamental role in reforming the organisation. Hence, this research investigates the transformation of the Bradford & Bingley Building Society, the last building society to demutualise, using a case study approach.

The remainder of this chapter proceeds as follows. In section 1.2, a discussion on the scope of research is presented. Section 1.3 then discusses the research aims and objectives. Section 1.4 presents the research questions with section 1.5 detailing the contribution of the thesis. Section 1.6 concludes with a structure of the thesis.

1.2 Scope of Research

This study focuses on the case of the former Bradford & Bingley Building Society and its strategic and organisational transformation between 1995 and 2010. In doing so, it first analyses the corporate governance of the firm using the corporate governance life-cycle theory. Second, building on these findings, and using the upper echelons theory, this thesis examines the perceptions and experiences of the decision-making of its top management team during periods of transition and transformation.

The investigation focuses on the period 1995 to 2010 as it captures a time of significant transformation at Bradford & Bingley, including the arrival of a new chief executive in 1996 and the ensuing strategic and organisational changes, the demutualisation and conversion to plc status in 2000, and nationalisation in 2008 after a period of strong business expansion and funding problems.

A case study also allows for the in depth examination of the governance changes as well as the transition and transformation of a firm over a period of time, with a special focus on the role of the board of directors and executives (the top management team) in the decision-making which contributed to these changes. Even though multiple case studies are often considered to be more persuasive (Herriott & Firestone, 1983), it is argued that a single case study is appropriate when investigating previously unresearched or unique cases, or cases that are revelatory (Yin, 2009). Furthermore, issues of access to key persons and the relative rarity of demutualisation and nationalisation of building societies in the UK inhibits the use of a larger sample of cases (Hartley, 2004).

Thus, this research uses a single case study approach as the case of Bradford & Bingley has unique characteristics that distinguishes it from other demutualised building societies. First, Bradford & Bingley is the last society to convert to plc status. As can be seen in Figure 1.1, Bradford & Bingley demutualised three years after the majority of building societies did, and after most of the public pressure on building societies to do so had already subsided. Second, and most significantly, it is the only building society to date, that has demutualised at the behest of its members, against the expressed wishes of management. Hence, this thesis makes an original contribution to knowledge as is explained in Section 1.5.

1.3 Research Aims and Objectives

This research has two aims, which centre on the transformation of the former Bradford & Bingley Building Society and the composition of its board of directors. In particular, this research focuses on the decision-making processes during the transition from building society to bank, as well as during the subsequent decline and nationalisation.

The first aim of this research is to investigate the changes in the governance functions of Bradford & Bingley during its transformation from building society to bank and ultimately nationalised institution. In doing so, this research will analyse the process of change within and across the firm's life-cycle stages during the Period 1995 – 2010.

The second aim of this research is to examine the board processes of Bradford & Bingley between 1995 and 2010 in the context of organisational and governance changes. In particular, the effect of the context of decision-making on board composition and board processes as well as organisational outcomes, is examined.

1.4 Research Questions

Based on the previous discussion of the research aims and objectives, the following research questions are examined:

1. How did Bradford & Bingley adapt its governance structures during the different corporate governance life-cycle stages in the Period 1995 – 2010?

2. What differences in board processes can be identified across the different life-cycle phases, with particular reference to:

    a. How contextual factors impact on decision-making processes?

    b. How board changes impact on decision-making processes?

1.5 Contribution

This research contributes to knowledge in a number of ways. First, it contributes to research on the corporate governance life-cycle by adding to our current understanding of the process of transition between life-cycle phases. It does so by means of a longitudinal investigation of multiple life-cycle transitions. In particular, it examines the transition from maturity to reinvention and from reinvention into decline, as suggested by Filatotchev, Toms, & Wright (2006). In studying these transitions, the focus is on the three governance functions of strategy, resource and monitoring. Exploring the changes in strategy and its interactions with board composition highlights the impact of changes in any of the governance functions on the other functions, adding to the understanding of micro-processes and causalities in organisational life-cycle transitions, which were previously under-researched (Filatotchev et al., 2006).

Second, this study contributes to research on the board of directors and their role in influencing the direction of the firm. Using the upper echelons perspective as a guide, the governance processes and perceptions of directors is systematically analysed with a particular focus on the impact of board composition and context on board decision-making and organisational outcomes. In using a qualitative case study approach, this research deviates from the usually quantitative nature of upper echelons research, adding to the growing body of knowledge in governance built on qualitative research. In doing so, it adds to existing knowledge by showing how company culture is used and perceived differently by top management team members across time. Furthermore, the role of different members of the board is studied with a particular view to board process. It is found that certain directors acted as gate keepers to the board and thus had significant impact on setting the agenda. Finally, the role of the chairman and chief executive are highlighted as key in setting the tone of the board and how personnel change in these positions has significant knock-on effects on other governance functions and the firm as a whole.

Third, this research adopts a multi-theoretic view by uniquely combining the corporate governance life-cycle with the upper echelons perspective. As argued by Filatotchev et al. (2006), the corporate governance life-cycle theory is inherently multi-theoretic and can potentially be combined with different theoretical perspectives, such as agency theory, resource-dependence theory, or theories in the field of strategy. However, the focus of this research is on the micro-processes of transition and change between and within life-cycle stages, therefore none of the theories above is likely to be suitable, as these theories are narrowly focused on single aspects of governance, while not addressing how board processes impact on the organisation's overall governance. Hence, this research contributes to knowledge by combining the corporate governance life-cycle with the upper echelons perspective to better explain board processes and behaviour in different stages of an organisations life. In doing so, it does not take a narrow view of theory as a set of strict procedures to follow, but combines the two theories, using them as a guide, to shed light onto the processes and perceptions of organisational change at Bradford & Bingley.

1.6 Structure of the Thesis

This thesis comprises of seven chapters with Chapters 5 and 6 containing the empirical results.

Chapter 2 outlines the historic background of building societies in the UK. First, the history of building societies since their origination in 1775 and their roots in the friendly societies movement are highlighted. Then the impact of a succession of building societies legislation is discussed. The impact of the 1986 Building Societies Act on the movement is highlighted with a particular view to the reasons and motivations for demutualisation in the sector. Finally, the history of Bradford & Bingley is briefly summarised.

Chapter 3 discusses the theoretical background of this research. In doing so, it first argues that the corporate governance life-cycle theory and the upper echelons theory are appropriate to this research. It then presents an overview of research on the corporate governance life-cycle, highlighting gaps in the literature. Finally, the origins and development of the upper echelons theory are discussed. The discussion also highlights the underlying constructs of the perspective, as well as potential pitfalls and implications for this research.

Chapter 4 explains the methodology adopted in this research. The research design and method are presented, arguing why a single case study approach has been chosen. Furthermore, the choice of semi-structured interviews and documentary sources is justified. In addition, the realities and difficulties of conducting elite interviews are discussed. Then the process of data collection and analysis are explained, before concluding with a problematisation of the research approach.

Chapter 5 examines the organisational changes of Bradford & Bingley between 1995 and 2010. Using the corporate governance life-cycle theory, it highlights the interconnectedness of the three governance functions of strategy, resource and monitoring. It further distinguishes between two resource functions: finance and knowledge. This distinction is important in analysing the changes in personnel (knowledge) and finance and their interaction with strategy. The chapter finally discusses the changes in the role and importance of monitoring within the governance of the firm, between different life-cycle stages of the firm.

Chapter 6 focuses on the board processes and board members perceptions of these processes during two different periods in the organisations life. It reveals the role and importance of context in decision-making and adds company and board culture as important factors impacting decision-making. Furthermore, the role of board composition, and within it, the role of key decision-makers, is studied, highlighting the role of gate keepers in influencing the agenda of the board and thus the future strategy of the whole firm. Finally, the engagement of top management team members and their access to information is viewed with an eye to its impact on the decision-making process.

Chapter 7 combines the key findings of each empirical chapter showing how the corporate governance life-cycle theory and the upper echelons perspective inform and build on each other in analysing the transformation of Bradford & Bingley. The findings of this study and the main conclusions of this thesis are then summarised. Finally, the implications and limitations of the research are discussed, and directions for future research are given.

Chapter 2

2 History of Building Societies in the UK: The Research Context

2.1 Introduction

Building societies, for most of their history, have been specialist financial institutions focused on the provision of financing for housing. They draw the majority of their funding from the personal sector, typically saving accounts, and lend to the personal sector in the form of mortgages to owner-occupiers. Until the 1980s, building societies had a virtual monopoly on the provision of housing finance in the United Kingdom. On top of the non-existent external competition, the Building Societies Association (BSA) also prevented effective internal competition by operating an interest rate cartel until its abolition in 1983. The enactment of the Building Societies Act 1986 presented a major watershed in the history of the industry and dramatically changed the size and composition of the industry.

Before providing a more detailed discussion of aspects of building societies relevant to this work, the general history, competitive as well as regulatory environment of the movement is presented. In addition, a background on demutualisation in the United Kingdom as well as a brief note on the origins of Bradford & Bingley is given. A general time line of the development of building societies in the UK is furthermore presented in Appendix A.1.

2.2 General History

The first building society, Ketley's, named after the inn keeper of the Golden Cross Inn, which served as a meeting point, is said to have been founded in 1775 in Birmingham (Boddy, 1980; Buckle & Thompson, 2004; Ashworth, 1980). The early societies are rooted in the friendly societies movement and were founded during the industrial revolution to combat some of the impacts of the upheaval of established social structures. Labourers moving from farming into the newly industrialising areas in the

Midlands, Lancashire and Yorkshire found themselves without their traditional support network in case of illness, injury or general need (Boleat, 1965).

Price (1958) and Boleat (1965) further report that the rapid industrialisation led to a doubling of the number of inhabitants of major centres such as Manchester, Leeds or Birmingham in just 30 years. The resulting pressure on the existing housing stock was thus strong and housing conditions were generally extremely poor. Building societies were founded to address this need, drawing on the Victorian values of thrift and mutual self-help. Most of the participants in these societies however were part of the upper working class who had a capacity for saving, such as yeomen, weavers, spinners, stonemasons, carpenters and shopkeepers (Ashworth, 1980).

These early societies were without exception small and of terminating nature (Terminating Societies). Consequently they had a relatively modest impact. Boddy (1980) claims that by 1825, approximately 250 societies had either built or bought approximately 2000 houses in total. The limited impact can be explained by the terminating nature and organisational structure of the movement.

Terminating societies were set up by a group of founding members which would all contribute to the initial capital and then on a monthly basis. Each member contributed the same amount of money and consequently had the same rights as any other member. From within the group, leaders would be chosen to administer the society. Houses would be built once a sufficient amount of funds had been accumulated. The order by which each member of the society would be allocated a house was usually through a lottery draw. Once all members had been housed and any excess capital distributed, the society would terminate (Boddy, 1980; Boleat, 1965).

From these working class beginnings, building societies over time graduated to a middle class customer base. One important facilitator of this transition was the introduction of the ability to set up a permanent building society, rather than a terminating, with the 1864 Building Societies Act. This brought about significant changes in the relationship between owners, borrowers and investors. However, not only did the customer base change, management also changed. Due to the new long term horizon and the influx of more funds from the saving public, a permanent and skilled management board was necessary. Persons with the required skill set and knowledge had to be recruited from the educated bourgeoisie (Boddy, 1980). In essence (permanent) building societies moved up the social ladder to become an essential middle class institution. The success of the new permanent form can be judged by the fact that by 1912 approximately 50 percent of existing societies were constituted as permanent societies (Buckle & Thompson, 2004).

Over time building societies have evolved into an organisation that is distinct from commercial banks and companies alike. Many of the functions, the legal framework and specific features that distinguish building societies from other organisations until today have been established prior to the first world war. These will be discussed in more detail in the following sections.

2.3 Competitive Environment

2.3.1 Background

Until the 1894 Building Societies Act, there was no requirement for a society to adhere to the standards set out in prior parliamentary acts. In fact many of the largest players in the market were building societies only in name, but operated as banks. Building societies could be incorporated either under the 1844 Joint Stock Companies Act or the 1855 Bank Act. Indeed the largest building society at the time, The Liberator, failed in 1892 (Ashworth, 1980; Robb, 1992) bringing down other societies in its wake and fundamentally shaking the populations' trust in the movement as a whole. What is most striking about the failure of The Liberator is that it was primarily a bank. Its housing related activities made up less than a quarter of its total balance sheet. Most of its activities were concentrated in commercial lending. The purpose of being a ‘building society’ was primarily to attract savings. While The Liberator was in some ways a special case[1], it was by no means unique in its business model (Boddy, 1980; Ashworth, 1980; Robb, 1992).

1 The Liberator was founded by Jabez Balfour in 1868. It tapped into the evangelical and temperance movement and used preachers to sell its products and attract savers. While in the beginning The Liberator conducted the business of housing finance, it later was used by its owner to finance his speculative ventures into the property market. The failure of these ventures and its repercussions on the society caused its demise (Robb, 1992).

The parallels to the recent history of building societies are striking. Just as at the end of the 19th century, there was a variety of business models in operation after 1989, namely mutual societies and plc firms. The competitive environment for building societies changed considerably over the years, from being small groups of like-minded people to being the main providers of housing finance in the United Kingdom. For a large part of the 20th century, building societies enjoyed a virtual monopoly in the housing market due to favourable legislation and credit rationing for commercial banks. During the 1970s, building societies had a market share of over 80 percent of new mortgages (Buckle & Thompson, 2004).

Sector concentration has increased within the movement since before the turn of the last century. The pace of consolidation and concentration has however markedly increased since the 1960s. In contrast to this development, the total number of branches has steadily increased until its peak in 1987 (see Appendix A.2). This fact can potentially be explained in two ways. First, the growth in branch network, especially in the early phase of the concentration process, can be explained by local building societies branching out of their original communities to larger audiences to attract more capital for future growth (Buckle & Thompson, 2004). Until wholesale funding was introduced with the 1986 Building Societies Act, deposits and profits were the only sources of funds to make new loans (Boleat, 1965). As a consequence, geographical expansion became a necessity.

Second, especially pertaining to the last half of the 20th century, another factor fuelling the growth of the branch network could be the desire for empire building and the accompanying perks. Due to the virtual monopoly in the personal mortgage market and the BSA interest rate cartel, no active markets for managerial control or take-over were in operation that could limit the size of operations. Contradicting this point however is evidence that building societies on average have significantly lower expense ratios than commercial banks and thus it could be concluded that they work much more efficiently (Boxall & Gallagher, 1997). Growth for sake of growth would create higher than optimal cost and thus should be reflected in a higher expense ratio. In order to illustrate the significance of the changes undergone and their impact on building societies, it is useful to briefly summarise Bradford & Bingley's history until 1995.

The Bradford & Bingley Building Society was formed in 1964 as a merger of two regional, middle-sized building societies, the Bradford Equitable Building Society and the Bingley Building Society, which date back to 1851. Thus it was a product of the consolidation process within the mutual financial sector. This merger was driven by Bob Gardner, then General Manager of the Bradford[2]. Over the following decades the society would grow into one with a national presence, mainly by acquiring smaller building societies around the country. Figure 2.1 shows how Bradford & Bingley was an active participant of the consolidation of societies during the 1970 and 1980s, growing into one of the top 20 largest societies in the UK. As Figure 2.1 further shows, the total number of mergers and acquisitions was thirty, with the highest number occurring during the year 1983. A time line of events of Bradford & Bingley's recent history is also presented in Appendix A.3 (Transformation: 1995 – 2005) and A.4 (Decline: 2006 – 2010).

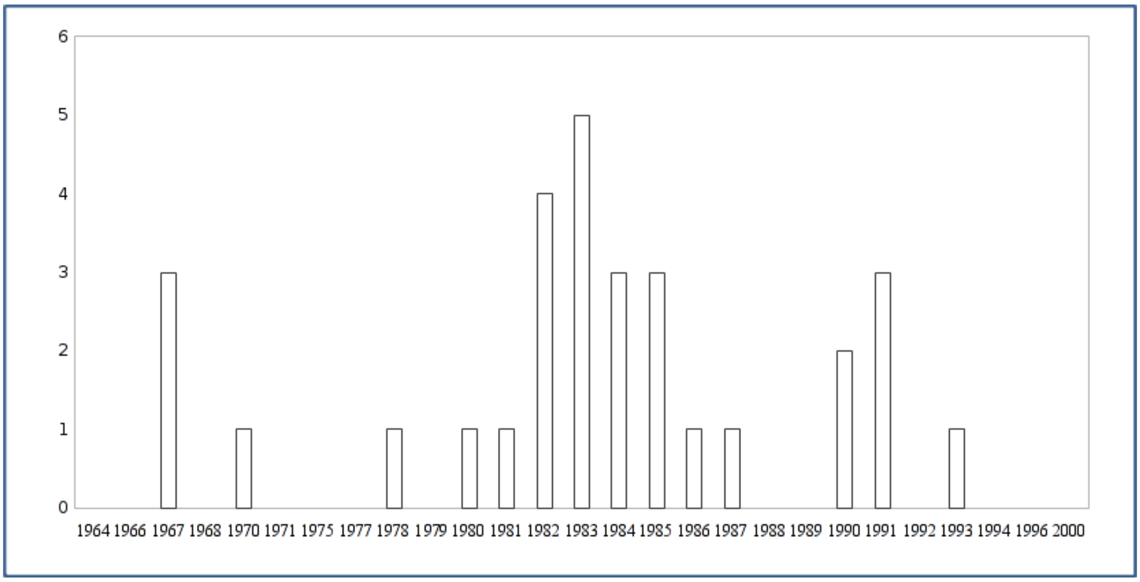

Figure 2.1: Bradford & Bingley Mergers and Acquisitions

2.3.2 Competitive Environment

The main competition for retail funds comes from retail banks and national savings institutions. The competition for these increased in the 1980s when retail banks started emulating the account offerings of building societies. Until 1983 the BSA operated a cartel of ‘recommended’ interest rates on deposits and mortgages to manage competitive

2 Director D

pressure inside the industry and in relation to external competition for funds. Interest rate management made these rates ‘sticky’ and bore no relation to market clearing rates (Buckle & Thompson, 2004; Boleat, 1965). Building societies continued to attract large amount of savings due to them offering very competitive returns on savings accounts.

The reasoning behind the interest rate cartel has mainly to do with risk management. The problem faced by building societies is their dual, incompatible, goals of paying high interest rates on deposits and charging low interest rates for mortgages. It is thus crucial to maintain a positive margin in order for the society to turn a profit. As mentioned before, profits and savings were the only two sources of funds and consequently operating a profitable interest margin is of great importance.

Competition for funds increased in the 1980s by retail banks emulating accounts previously offered exclusively by building societies such as short-notice accounts and instant access accounts. Banks have been offering term accounts since the 1970s. At the same time retail banks increased their market share of first mortgages from 36 percent in 1983 to 59 percent in 1993. The competitive pressure on the core business of building societies was so strong that the interest rate cartel could no longer be maintained to stem the loss of deposits and market share. The decision by Abbey National, the largest building society at the time, to leave the cartel in 1979 led to its ultimate abandonment in 1983.

While retail banks entering the mortgage market were one of the main competitors, a new type of competitor entered the market in 1986. This competitor was imported from the United States where the process of home finance intermediation changed with the introduction of centralised mortgage lenders in 1986 (Ranieri, 1996; Lewis, 1989). These centralised mortgage lenders relied on credit scoring to determine the credit worthiness of applicants in a cost-efficient way. Their operational structure allowed them to have a very low cost operation enabling them to offer competitive mortgages. These lenders were very aggressive in competing for a share of the market and offered what would today be called subprime mortgages to borrowers with imperfect credit records. One problem encountered by these lenders was, unlike in the United States, a lack of substantial credit histories that could be statistically analysed to make credit allocation decisions. The weaknesses in credit allocation would come to haunt centralised lenders during the 1991 – 1992 recession. The drop in house prices and increased unemployment proved to be a toxic mix and caused the exit of these lenders from the UK mortgage market. In 1995, The Kensington Group was the first centralised lender to re-enter the market for subprime mortgages.

Finally, based on recommendations published in the 1984 BSA Report ‘The future constitution and powers of building societies’, the Building Societies Act 1986 was enacted. One of the new powers given to building societies was the permission to provide additional services to customers. All additional services permitted were related to the original lines of business offered. The following permissible services were added:

Banking Services	**Investment Services**	**Insurance Services**
• Credit cards	• Manage investments	• Underwrite insurance
• Unsecured lending (subject to limit)	• Establish personal equity plans	• Provide insurance
• Foreign currency services	• Operate a stock broking service	
	• Provide investment advice	

From Buckle & Thompson (2004)

Table 2.1: Permissible Services Introduced by the 1986 Building Societies Act

Out of the three services listed above, banking services proved by far to be the most popular. Nationwide was the first building society to start offering current accounts in 1987[3]. The other large building societies at the time such as Halifax, Alliance & Leicester, Bradford & Bingley and Northern Rock followed suit in order to compete with Nationwide and the country's retail banks. Investment and insurance services were much less popular. At the end of the 1980s, some building societies decided to acquire estate agents to be able to sell houses and the accompanying mortgages at the same time. However, the building societies entered the market right at the end of the housing boom when prices were inflated. Once the bubble burst, the competitive environment in a declining market turned very tough and as a consequence many began losing money.

3 The Act became effective January 1, 1987

The ensuing market consolidation saw many agencies merge or exit the market. Most building societies decided to dispose of their estate agents and sold them at a loss (Buckle & Thompson, 2004).

2.4 Demutualisation in the United Kingdom

Demutualisation in the United Kingdom took place between 1989 when Abbey National became the first building society to demutualise and 2000, when Bradford & Bingley became the last society to do so to date. In the interim, eight other building societies lost their mutual status.

This section reviews the extant literature on demutualisation by first reviewing the reason identified in academic literature, that underpin the demutualisation process, before assessing the effects of this process as reported in literature. Finally the governance and strategy-related literature on demutualisation is reviewed.

2.4.1 Reasons for Demutualisation

Stephens (2001) aims to identify the causes for demutualisation and sets out to test three propositions, first, that mutual banks have inferior performance, second, that structural changes of the UK mortgage market made the mutual business model not tenable any longer, and third, that demutualisation was a strategic choice made by the larger societies.

Stephens (2001) attempted to answer the first question by using a very brief literature review, coming to the conclusion that prior literature does not unequivocally find in favour of either organisational form. Evidence generated since then has not been able to provide more clarity on this subject due to inherent limitations. The majority of literature that measures performance in a European context uses a cross-country sample to gain a larger sample for statistical purposes (Ayadi et al., 2009; Brunner et al., 2004; Iannotta et al., 2007; Lamm-Tennant & Starks, 1993), with all its inherent problems such as different regulatory regimes and forms of mutual organisation across countries. Another issue is the use of inadequate tools to measure performance and / or risk of mutually organised firms (for example, Beck et al., 2009; Valnek, 1999). Furthermore, comparing mutual and plc financial institutions is misleading due to the different objectives each form of organisation has. Since both forms of organisation of economic activities co-exist and have done so for at least 150 years it follows that each form must confer certain economic advantages that make it viable vis-a-vis their competition.

Failings and Weaknesses of the Mutual Form

The charge that mutual financial institutions are an outdated model of financial intermediation has been made by a number of authors. The argument is build on the premise that mutuality does not confer the same benefits it did in the past, a point made by a number of authors ((Boxall & Gallagher, 1997; Cook et al., 2002; Fonteyne, 2007; Hansmann, 1996). However, the picture is more nuanced as Cook et al. (2002) noted. Mutuality thrives in situations where long-term relationships are established between parties and where fiduciary duties are the paramount obligation carried out by the principal, for example in the life-insurance market or mortgage finance. Additionally (Marshall et al., 1997) state that mutual firms typically have a less diversified product range which decreases the governance cost by virtue of being a less complex organisation.

Economic Changes in the 1980s

The conditions that seemingly created a situation in which mutuality seemed not be the right form of economic organisation were created during the 1980s by change in regulation that allowed more economic freedom for financial firms. For example until then, banks were largely prohibited to enter the mortgage market and compete with building societies. This was also the era of rising house prices and financialisation, which began in all earnest with the Big Bang of 1986 that eradicated many of the regulations and restrictions put on banking and later building societies. The ensuing economic pressure led building societies to adapt their business practices and Marshall et al. (1997) state that the acquisition of new managerial skills in marketing, sales, financial management and corporate planning amongst others. The influx of personnel with a non-mutual background led to a change in attitudes towards mutuality and shift behaviour from being a primarily social society to being more commercially minded.

The Introduction of Competition

Wells (1989) describes the changes in the competitive landscape caused by the 1986 re-regulation of the financial sector with a particular emphasis on the strategic options facing building societies. Stephens (2001) and Leyshon & Thrift (1993) provide more extensive descriptions of the underlying changes, however with a focus on diversification of income generating activities (Stephens, 2001) and increased competition by new market entrants and cost cutting within the financial industry (Leyshon & Thrift, 1993). The booming housing market of the 1980s ended in the economic recession of 1992 / 1993 and further increased the desire of larger building societies to diversify. Stephens (2001) further identified two general strategies. The first was to offer life-insurance products to customers, the second was general insurance products such as contents insurance or third party insurance. While the first was often done by setting up a new division within the firm and then acquiring a competitor to gain access to the insurance market, the latter was often provided through joint ventures. Bradford & Bingley is the only (then) building society to deviate from this pattern by acting as an agent to distribute third party products through their branches and earning a commission on successful transactions. Smaller and medium sized building societies and demutualised societies such as Northern Rock decided to focus on their core business and did not, or only briefly, venture into these markets. Stephens (2001) interprets the collected evidence as not conclusive that demutualisation was required in order for building societies to compete effectively as both mutual and demutualised societies entered the same markets in the same manner.

Strategic Choices of Building Societies

Stephens (2001) identifies five different reasons for demutualisation based on observing the process between 1989 and 2000. The five reasons are:

1. Consolidation <u>through merger and acquisition</u> to achieve economies of scale (Halifax acquires Leeds Permanent, Abbey National acquires National & Provincial)

2. Defensive conversion to gain legal protection from take-over for five years[4]: argument put forward by Alliance & Leicester, Woolwich and Northern Rock

3. Defensive conversion to maintain operational independence after takeover: Bristol & West was taken over by Bank of Ireland to manage its mortgage business

4. Growth through merger and acquisition: Halifax followed this strategy in order to become large enough not to be an easy takeover target

5. Member revolt: Bradford & Bingley is the only building society to date to have been forced into conversion by its members against the expressed wishes of management. All other societies converted on recommendation of the board. Nationwide avoided demutualisation by member revolt twice.

Consequently, the main theme emerging from these reasons is that they are mostly about strategic choice. Reason 5, member revolt, is the most relevant in the context of this research as it relates to Bradford & Bingley. The conversion of Cheltenham & Gloucester to be taken over by Lloyds TSB (the first demutualisation since Abbey National) created considerable fear in the building societies movement because it set a precedent, in that any society could be a takeover target by another non-mutual financial institution. Further, the large windfall gain of £2200 that members received might create expectations of similar windfalls in future conversions and thus increase pressure to follow that path. The fears turned out to be without basis however, as the authors show there was ever only one (unsuccessful) hostile takeover bid for a building society by Halifax for Birmingham Midshires while it was in negotiations with Royal Bank of Scotland in 1998.

Nevertheless, in 1995 Alliance & Leicester, Woolwich and Northern Rock were afraid of hostile bids and saw demutualisation as a path to remaining independent after conversion, as the law afforded any society a five year protection from takeover. The 1997 Building Societies Act changed the law to remove that protection if a converted society acquired another financial firm. Stephens (2001) points out that, for these

4 The Building Societies Act 1986 provided converting societies a five year period of protection from hostile takeover.

medium sized firms to remain independent once the protection expires, they would need to grow in size which can most easily be achieved by acquiring other firms.

2.4.2 The Effects of Demutualisation

Martin & Turner (2000) come to many of the same conclusions as Stephens (2001) in regards to the reasons for demutualisation. However, they go on to investigate the development of the constitution of share ownership after demutualisation and show that within two years of conversion, the ownership of former building societies had substantially transferred from being a reflection of their customer base (in geographical terms) to the City of London. This raises questions regarding the traditionally local nature of building societies and the effect conversion has on this nature and its implications for the future direction and ties to their local communities.

A variety of effects of demutualisation have been investigated in relation to the increased competitive pressures introduced by regulation. The pressure to cut cost and compete with banks on a more equal footing led to a drive for rationalisation by building societies and demutualised societies. While the overall efficiency of building societies was very high compared to retail banks (Webb et al., 2010), their cost structure was largely determined by staffing levels and the size of their branch network (Marshall et al., 2000). Consequently competition led to a rationalisation of the branch network of banks and building societies alike, however their strategies differed markedly as Marshall et al. (2000) demonstrate. The converted societies followed a clear profit motive by closing branches in unprofitable areas, such as rural and inner city neighbourhoods while slightly increasing their presence in more affluent areas and locations with a high volume of traffic. Conversely building societies moved into the areas vacated by the demutualised societies.

Another aspect that garnered some interest post demutualisation is the pricing behaviour of the converters. Heffernan (2005) shows that converted building societies changed their pricing behaviour from benefiting customers to focusing on profits. Finally, Shiwakoti (2012) investigates how executive remuneration changed in former building societies and how it compares to building societies and banks. The author finds that executive remuneration increases dramatically to levels comparable to those seen in commercial banks. Interestingly the increase in remuneration is not matched by an increase in performance. The findings further show that for building societies, remuneration is based on the size of the firm, whereas the driving factor behind remuneration in the converted building societies is the remuneration levels of peers, that is, commercial banks.

2.4.3 Governance and Strategy

While the literature discussed above investigated events happening around and shortly after demutualisation, a different strand of literature looked at the 'other end' of the process – failure. In particular, the literature sought to explain the failure of former building societies from a strategic choice perspective (Branston et al., 2009), corporate governance (Talbot, 2010), or market failure (Hallsworth & Skinner, 2008).

Talbot (2010), for example, asserts that the demutualising societies were not prepared for a radical change of their corporate governance framework from being a member-owned collective to a shareholder-beholden organisation. This inevitably led to agency problems that ultimately caused the financial difficulties ending the existence of these firms. Branston et al. (2009) and Hallsworth & Skinner (2008) both attribute the failure of former building societies to internal problems, though Branston et al. reject any outside causes that lead to the failure. Hallsworth & Skinner (2008), on the other hand point to the weaknesses in the business model of the former societies and assert that what ultimately caused Northern Rocks downfall was not so much a specific market event, but rather press reports and TV screens showing queues of customers; projecting a picture of the firm's imminent demise. This triggered a run on the bank, even though the liquidity situation of the bank was better than what it looked like on TV. Lastly, Klimecki & Willmott (2009) sought to explain the demise of Northern Rock and Bradford & Bingley in the light of financialisation and the wider neoliberal movement of which these two banks were ultimately a victim.

All of the studies above do suffer from shortcomings nevertheless. For example, Klimecki & Willmott present a summary of a number of news reports and other secondary sources to present a narrative story. They however make no attempt to substantiate their claims beyond summarising their sources. Similarly Hallsworth &

Skinner use a similar approach to present their short paper. Branston et al.'s (2009) working paper presents a more extensive analysis of the event but do not support their claims with substantive evidence. Finally Talbot (2010) uses agency theory as the underpinning theory of her story and therefore focuses more on general corporate governance and the differences in organisational aspects of building societies and newly formed banks. While there are papers on governance in mutuals such as Baker & Thompson (2000), there seems to be a lack of literature investigating the demutualisation and subsequent failure of former building societies.

Overall, given the public outcry and severe economic consequences of the failure of Northern Rock and other former building societies (and banks indeed), it is surprising not to find more extensive research on demutualisation of building societies. One possible explanation is that the topic does not lend itself to quantitative study due to the small number of former building societies. Contributions to the research of demutualisation in the United Kingdom comes from a variety of fields, most notably geography, law, corporate governance and finance.

What unifies the studies is the overriding theme of strategic choice and strategic failure that is mentioned in a large number of studies. As strategy is the domain of top management, Upper Echelons research should provide a useful framework in which to analyse executive decisions and outcomes.

2.5 Conclusion

This chapter briefly summarised the history of building societies in the United Kingdom from their origin in 1775. It then focused on the recent development of the competitive environment and its impact on building societies during the twentieth century. Demutualisation, as a result of legislative changes and competitive pressures, affected the movement through the loss of most large and medium-sized societies. Section 2.4 discussed demutualisation in the United Kingdom, its effects on the movement as well as prior studies on the failure of demutualised building societies. Bradford & Bingley, the topic of this study, was one of the demutualising societies. As such a brief history of its development since its foundation in 1964, itself a product of sector consolidation, is provided, highlighting the development of the society movement in the twentieth century. This chapter has thus provided a background on the origins of Bradford & Bingley and the forces that shaped the society until demutualisation in 2000. The chapter further argued that competitive pressures were instrumental in the demutualisation process for many societies, though not Bradford & Bingley, an issue which is discussed further in Chapter 5.

Chapter 3

3 Literature Review

3.1 Introduction

The aim of this literature review is to discuss the two theoretical perspectives employed in this research. In particular, it explores the background and development of the corporate governance life-cycle theory and the upper echelons perspective, as well as criticisms levelled against them. This chapter begins with a brief discussion outlining the development of UK Corporate Governance Codes during the study period in Section 3.2. Following on from that, Section 3.3 presents prior case studies of corporate governance failure. The chapter then continues to discuss theories commonly used in corporate governance research in Section 3.4 and then discusses the corporate governance life-cycle (Section 3.5) and upper echelons perspective (Section 3.6), in each case, outlining their application to this research. Finally, the conclusion, Section 3.8, summarises the discussion and presents an integrated view of the two theoretical perspectives.

3.2 Codes of Governance in the UK

As this study investigates the governance, and transformation thereof, of Bradford & Bingley between 1995 – 2010, it is necessary to summarise the corporate governance codes in existence, as well as the changes to UK corporate governance during that period. This section therefore highlights the development of corporate governance codes in the UK, during the period 1992 – 2010, including a discussion on the recommendations made within the implemented codes.[1]

In May 1991, following a number of financial scandals (e.g. Polly Peck, Coloroll) (Mallin, 2013), the Cadbury Committee was established to codify the then existing implicit system of governance (Cadbury, 1992, p. 12, para. 1.7). The Cadbury Report

1 Appendix B, page 226, presents a tabled summary of the corporate governance codes discussed in this section.

was subsequently published in 1992. While the report focused on three areas of governance for listed companies: board of directors, auditing and shareholders, only the first two are applicable to building societies[2]. Cadbury, made 19 recommendations to improve transparency and financial accountability of the board, chiefly, the separation of the position of chairman and chief executive, the requirement to have a minimum of three non-executive directors on the board, to establish an audit committee, and to establish a system of internal controls. Following Cadbury, and its perceived success in improving corporate governance in the UK (Jones & Pollitt (2002, 2004) in Solomon (2013)), the Combined Code was published in 1998.

The Combined Code (1998) represents the merger of the Cadbury Report, the Greenbury Report (1995) and the Hampel Report (1998). The Greenbury Report, was in response to concerns by the public and shareholders about excessive executive remuneration. It made recommendations regarding the disclosure of pay packages. The report also focused on creating accountability through disclosure of remuneration packages in annual reports, creating remuneration committees, as well as improving the link between pay and performance. In addition, the Hampel Committee, set up in 1995, reviewed the implementation of the Cadbury and Greenbury Reports. It published its report in 1998, which supported the overwhelming majority of findings of the previous reports. The report, however, also represented a further development of corporate governance in the UK, by shifting the focus of corporate governance to a principles-based and voluntary, rather than a prescriptive and regulated code. In a nutshell, the Combined Code added that the directors are responsible for maintaining an effective system of internal controls (financial, operational, compliance, risk management) and that these should be reviewed at least annually and the outcome reported on (Combined Code, Part D.2.1).

Following the collapse of Enron and other large corporations in the US and Europe, the role and effectiveness of non-executive directors was reviewed, as ineffective non-executive directors contributed to the failures of, for example, Enron and Parmalat. The Higgs Review (2003) in this regard, set out to review the role and effectiveness of non-

2 To this date the Building Societies Association publishes guidance on the implementation of the UK Corporate Governance Code for its members (http://www.bsa.org.uk/information/publications/industry-publications/the-uk-corporate-governance-code-bsa-guidance-for/).

executive directors. The Review included suggested revisions to the Combined Code and detailed a number of recommendations to improve the position of non-executives against executives. Primary among the recommendations is the requirement that, at least half the board should consist of non-executives, remuneration should be more appropriate and that non-executives should be shareholder champions. In addition, Higgs recommended a large number of other measures to improve transparency on the performance and suitability of non-executives, for example, meeting attendance . Resulting from the work of the Higgs Committee, the Tyson Report (2003) looked into the effect of diversity in the board room on available skills and experience to contribute to board discussions and better relationships with a range of stakeholders.

Following this intensive period of amendments to the existing UK corporate governance framework, the Combined Code received some minor updates in 2006 and 2008. In addition, the guidance audit committees was updated and brought in line with Audit Practice's Board (APB) Ethical Standard. The financial crisis of 2008 then triggered further reviews by Turner and Walker, which were published in 2009. Turner was tasked to review the causes of the financial crisis in order to improve the UK system of supervision and regulation of financial firms. The review identified remuneration as a key aspect of risk-taking by financial institutions and called for a better alignment of risk and compensation. Furthermore, firms were called upon to put more emphasis on risk, risk management and effective internal controls in order to minimise the probability of such a crisis reoccurring. In addition to Turner, Walker reviewed the governance of banks and other financial institutions and made a total of 39 recommendations in the areas of board composition and conduct, performance evaluation, the role of institutional shareholders, as well as risk and remuneration.

In 2010, the Combined Code was updated by the FRC following an extensive consultation process. Besides incorporating a number of recommendations made by Walker, the Code was renamed UK Corporate Governance Code. The main changes in the code focused on improving transparency and accountability of the firm and its directors. In particular, more transparency and accountability was introduced in the director recruitment and appointment process, as well as calling for firms to be more explicit about their business model.

3.3 Case studies of corporate governance failure

Historically, corporate governance research has focused on quantitative, positivist theories and methodologies (Brennan & Solomon, 2008). However, as Brennan & Solomon (2008) demonstrate, there is an increasing diversification of theoretical and methodological approaches in governance research, including the increased use of case studies (for example Maitlis (2004); Parker (2007a, 2007b, 2008). While corporate governance case studies are becoming more common, case studies of corporate governance failure are less prevalent. This is mainly due to obstacles in accessing and gathering information from inside the firm, during or due to a critical time in its existence. A number of researchers however (for example Matthews (2005); Mellahi (2005); or Sun et al. (2011)), have been able to access first hand information through a careful choice of their study setting.

This section presents a range of case studies that investigate cases of corporate governance failure. These case studies focus on different companies, such as Enron, Parmalat and Northern Rock, and feature a variety of theoretical and methodological angles, for example business history, resource-based view, or spatial geography. The following paragraphs thus present a number of case studies of governance failure, outlining their approach and background.

Well-known subjects of investigation have been the high-profile collapses of Enron and Parmalat in the early 2000s. Cohan (2002) and Healy & Palepu (2003) both investigate Enron, though with a very different focus and approach. Cohan's (2002) paper is based on business ethics and focuses on the failures of information transmission between different managerial levels, that is "information blockage", and how this is a result of existing corporate structures and individual behaviour within these structures. While the Enron-case is used in this paper as an example of such informational problems, the majority of discussion is centred on how a variety of unethical behaviours creates 'information blockage' without reference to Enron.

Healy & Palepu (2003) on the other hand, focus on the relationship between information providers and information users at Enron. Their paper extensively describes the development of the firm from inception to failure, before discussing six aspects of governance problems in depth. In particular, the authors focus on three information providers: the audit committee, the remuneration committee and the external auditor. On the information user side, the role of fund managers, sell-side analysts and accounting regulation are presented. Though not explicitly stated, the paper adopts an agency perspective by focusing on the presentation and availability of information from information providers (agents) to information users (principals). The governance problems are hence reduced to two aspects: (a) a lack of information[3] and (b) once information was available that it was not used accordingly. Thus the authors identified two major problems at Enron: information disclosure and a market failure to use the available information.

Similar to Enron, Parmalat, dubbed 'Europe’s Enron, also attracted its fair share of attention. Buchanan & Yang (2005), similar to Healy & Palepu (2003), begin by describing the history of Parmalat at length, before studying the ownership and organisational structure of the firm, to show how a dominant owner-family was the governance problem that led to the eventual demise of the firm. Based on public information, the authors investigate the agency problems between minority and majority owners, as well as how the decision-making style of the owner was secretive. In doing so, they highlight the ineffectiveness of the board and external auditor, who both had ties to the owning family and how, lacking the appropriate checks and balances, the majority owner managed to extract funds from the firm through fraudulent accounting practices, related-party transactions and the extensive use of offshore bank accounts and shell companies. Thus the owners managed to remain in control of the family firm and obfuscate the fact that the firm was bankrupt.

Melis (2005) also focuses on the role of senior management, auditors and the role of the CEO-Founder-Chair of Parmalat. She goes on the compare the governance arrangements at Parmalat to the Italian governance code to show that Parmalat was in violation of several aspects of the code. She also concludes that a lack of transparency and the role of the majority owner are to blame for the firms bankruptcy.

A similar theme of unethical behaviour by key individuals enabled by poor management structures and corporate culture, also feature in Drennan's (2004) paper which uses the cases of Baring's Bank and Mirror Group to highlight how risk

3 e.g. the use of Special Purpose Entities to hide debt

management needs to focus not only on typical business risks, for example the economy, but also on human risk factors. Though both cases are presented only briefly, the paper discusses the approach to risk management in UK corporate governance codes between 1992 and 2003, calling for stricter adherence to the existing code by firms, and the need to focus on hiring ethical individuals to reduce risk within the business.

Another case in which the failure of auditors and regulatory oversight did not prevent fraudulent activities by key individuals is the failure of London and County Securities (L&C). Matthews (2005) studies the failure of L&C in 1973 using a variety of sources, including public documents as well as private papers and interviews with individuals involved with the bank. The author shows how the auditing firm lacked independence as L&C was their most profitable client, and even went as far as removing auditors critical of the accounting practices at the bank from the audit. In addition, the regulatory oversight of the bank was weak, contributing to the eventual failure of the bank when funding became inaccessible. The case of L&C is further illustrative, as subsequent regulatory reform in the UK failed to prevent further company failures in the 1980s and 1990s (for example Baring's, Mirror Group, Polly Peck, Coloroll), as well as in the 2000s and 2010s (for example Northern Rock, Bradford & Bingley, RBS, Lloyds TSB, The Co-operative Bank).

Within the UK, Northern Rock garnered a lot of attention. Most well known is perhaps the extensive parliamentary report on the failure of Northern Rock (House of Commons Treasury Select Committee, 2008) which sought to investigate how the bank failed, using a variety of sources unavailable to academic researchers, such as directors who were compelled to provide evidence. While the report is extensive and very detailed, it is not based on governance theory. A case study of Northern Rock with a very different angle is Hallsworth & Skinner (2008), who focus on the behaviour and language used by regulators in contributing to the run on the bank which forced the government into nationalising the institution. In particular, they highlight how the language used by the Bank of England and Financial Services Authority created the illusion of scarcity of money when in reality most depositor funds were protected.

Yet another example of an investigation into bank failure is Sigurjonsson's (2010) paper on the collapse of the Icelandic banking system. The paper, while not being a single case study, focuses on the privatisation of Icelandic banks and its impact on the agency relationship between the banks and their owners. The case of Iceland is insofar interesting in that banks transferred from being publicly owned institutions to fully privately owned banks. Whilst there were 14 banks initially before deregulation and liberalisation in the 1980s and 1990s, sector consolidation led to the survival of five banks before the 2008 collapse. Thus there are some parallels between privatisation in Iceland and demutualisation in the UK and its outcome.

Sigurjonsson further identifies a number of factors that contributed to the bank failure, many of which also feature in the failure of UK banks, including Bradford & Bingley. In particular, a weak regulatory environment ('light touch regulation of the City’) and a reliance on short-term wholesale funding, were influential external factors. Internally, seven governance problems were identified, such as weak agency relationships through cross-shareholdings, the prevalence of dominant shareholders and a unsavvy general public, as well as inexperienced board (many executives were in their 20s and 30s), weak monitoring by non-executive directors (linking back to weak agency relationships) and excessive performance-based remuneration. Overall, this environment led to banks taking excessive risks and engaging in irresponsible lending practices. Many of these factors have also been identified in contributing to the demise of Northern Rock, such as an inexperienced board (key individuals had no banking experience or certifications, for example, Adam Applegarth (CEO)) and irresponsible lending practices (125% mortgages).

Finally, there are a number of case studies in less conventional settings, that is, not in the US/UK or Western Europe. First, Mellahi (2005) investigates the failure of HIH, an Australian insurer. While he uses a combination of publicly available documents, such as parliamentary inquest records, much like other studies cited above, he focuses his analysis on the board of directors and the functioning on the board. In investigating the failure of HIH, he designed a framework of four stages of governance failure and illustrates how the insurer failed as a result of the behaviours of the chief executive (CE) and a passive board, which compounded the negative behavioural patterns of the CE. The study is significant in showing how corporate failure is the result of a string of decisions and other factors, rather than singular events, which is also highlighted in this thesis.

A second case study in a less conventional setting is the failure of Kelon (household appliances) in China. Studies of governance failure in emerging and transition economies are still rare. However, Sun et al. (2011) investigate the failure of Kelon in the context of the role of political resources in corporate governance and company failure. Their analysis draws on the resource-based view, rent appropriation and agency theory to show how the creation of political resources are central to economic success in transition economies, but also how these resources can later work against the company, when political officials extract resources from the company.

In summary, case studies of corporate governance failure cover a range of topics and approaches, as discussed above. In investigating governance failure, academic literature uses a variety of theories, such as agency theory and resource-based theories, and investigates a wide variety of governance mechanisms and actors, such as the board, the auditors, or external bodies (political institutions, investors). Consequently, the evidence provided by case studies is useful, as it adds to the understanding of corporate governance failures and the role of a variety of actors within the governance of the firm.

3.4 Theories in corporate governance literature

Previous research examining corporate governance within a firm have attempted to place the empirical investigation of corporate governance into several main theories. These include agency theory (Fama & Jensen, 1983; Jensen & Meckling, 1976; Shleifer & Vishny, 1997), resource based theories (Mizruchi & Stearns, 1988; Toms & Filatotchev, 2004) and stewardship theory (Donaldson, 1990; Donaldson & Davis, 1991).

3.4.1 Agency Theory

Agency theory is based on the assumption that the interests of a firm's owners and its management, conflict (Fama & Jensen, 1983; Smith, 1776), and hence the focus is on better aligning the interests of both parties (Fama & Jensen, 1983; Jensen & Meckling, 1976; Fama, 1980). This implies that a firm needs robust monitoring mechanisms through the board of directors, where the task of representing owner interests falls to non-executive directors. However, as monitoring is neither free, nor complete, agency cost arise (Fama & Jensen, 1983).

This research however, contrasts with agency theory in that it views the role of directors differently. In particular, the research rejects the notion that the role of directors is limited to the monitoring of management, as argued by Fama & Jensen (1983) and Jensen & Meckling (1976). The role of monitoring has been central to corporate governance research, (Daily et al., 2003; Johnson et al., 1996), however in a meta-analysis of corporate governance research Dalton et al. (1998), could not find a significant relationship between the independence of the board and corporate performance. They consider two possible explanations as to why this relationship has not been found. First, prior research overemphasized the importance of the monitoring role of governance and second, that the link between board independence and performance is not as direct as has been asserted in the literature. This critique reflects the existence of other roles of the board of directors besides monitoring, as proposed in the corporate governance life-cycle model (Filatotchev et al., 2006; Zahra & Pearce II, 1989). In addition, this less prominent role of monitoring also has implications for the governance of non-investor owned firms, for example, mutuals, which have been described as having inefficient governance structures, due to a lack of oversight from the firms owners and board of directors (for example, Fonteyne, 2007).

Furthermore, Hillman et al. (2000) argue that the traditional distinction between inside and outside directors on the board in governance research and regulation is not useful, as the distinction of inside and outside directors is derived from the assumptions of agency theory. The distinction between these two types of directors is logical only if director independence and the monitoring role are considered to be paramount. However, they argue that the resource and monitoring roles of governance are very distinct and that the attributes and roles of these two functions need to be studied separately.

Finally, agency theory has been criticised for being too narrowly focused on monitoring and control, while ignoring other activities that are conducted by the board such as giving advice (Westphal, 1999). This critique of focusing on a single element of corporate governance has also been asserted by Pfeffer (1972), by arguing that a firm's board is a reflection of its external dependencies and that changes in the environment lead to changes on the board. In contrast, this research focuses on the interrelated aspects of board context, composition and process using two lenses: the corporate governance life-cycle and the upper echelons perspective. It will be argued that designations, such as that of the independent director, are less important in explaining the outcomes of corporate governance than the process of governing within the specific context of the firm (Filatotchev & Boyd, 2009).

3.4.2 Resource Dependency Theory

At the heart of the resource-dependence theory lies its recognition that organisations operate in the same space with many other organisations and that the interaction of these autonomous entities creates external dependencies between them. Their individual actions can be constrained for a variety of reasons, internal and external, such as regulation, or by external dependencies. A central goal of firms in the resource-dependency framework is to reduce external dependencies and uncertainty. Central to this is the concept of power over vital resources and each organisation's desire to exercise this power over others while reducing others power over itself (Johnson et al., 1996; Ulrich & Barney, 1984; Zahra & Pearce II, 1989).

The focus of the resource-dependence theory is therefore on the role of the board of directors in providing resources and links to the external environment that benefit the firm. Hence, as discussed in the previous section, resource-dependence theory contrasts with agency theory in that it views the role of directors differently and rejects the notion that the role of directors is limited to the monitoring of management.

Early studies of the resource-dependence theory have examined boards with a focus on board size and composition as an indicator to provide resources. The underlying idea is that boards are not a collection of random individuals but that the composition of the board is based on a rational response to external factors and the environment. Pearce & Zahra (1992) however, criticise the view of boards as resource providers as too simplistic and narrow and argue that board composition is influenced by other factors as well, such as firm size, strategy and financial performance. Further, Boyd (1990) suggested that not only the number, but also the type of director matters.

In addition, it is argued in resource-dependence theory that executive turnover can be attributed to a misalignment of organisational behaviour and the environment, thus that the CEO is replaced with someone else who is better suited to aligning the organisation with its environment (Pfeffer & Salancik, 1978). For example, Harrison, Torres, & Kukalis (1988) find that firms with a higher dependence on the external environment experience a higher executive turnover rate. This higher rate of environmental uncertainty also affects the choice of manager as Guthrie & Olian (1991) found. The authors found that in a more uncertain environment, diverse business experience and shorter tenure in a particular business unit are seen as an advantage.

This research however does not employ the resource-dependence theory for several reasons. First the theory has been criticised for being too narrowly focused on a firms links with the external environment and ignoring other activities that are conducted by the board such as giving advice (Westphal, 1999) or monitoring (Fama, 1980; Fama & Jensen, 1983; Johnson et al., 1996). This focus on a single segment of corporate governance has been asserted by Pfeffer (1972) by arguing that a firm's board is a reflection of its external dependencies and that changes in the environment lead to changes on the board.

In addition, the resource-dependence theory has been criticised through claims made by many researchers on the link between board composition and financial performance. Pettigrew, (1992, p. 171) for example, remarked that "*great inferential leaps are made from input variables such as board composition to out output variables such as board performance with no direct evidence on the processes and mechanisms which presumably link the inputs to the outputs*". A few years later Forbes & Milliken, (1999, p. 490) also argued that "*the influence of board demography on firm performance may not be as simple and direct, as many past studies presume, but, rather, complex and indirect. To account for this possibility, researchers must begin to explore more precise ways of studying board demography that account for the role of intervening processes*".

Hence, as this research does not study the financial performance of Bradford & Bingley between 1995 and 2010, but rather investigates intermediary board processes that link board input and output, the resource dependence theory is not appropriate in this regard. Consequently, both, the corporate governance life-cycle and the upper echelons theory, used in this research, consider strategy to be an important part of governance, thus moving away from focusing on singular aspects of governance, such as monitoring (agency theory) or resource provision (resource-dependence theory).

3.4.3 Stewardship Theory

Stewardship theory contrasts with agency theory as managers are viewed as essentially trustworthy individuals and are thus good stewards of the firm's resources. Furthermore it is argued that directors who are familiar with the firm (inside non-executive directors, executive directors) are able to make better decisions because of their informational advantage over outside, independent directors (Donaldson, 1990; Donaldson & Davis, 1991, 1994). Hence superior performance should be expected of firms with a higher degree of inside directors (in contrast to agency theory) which also implies that monitoring is not as relevant in the context of improving corporate performance.As managers are generally considered to be trustworthy (Donaldson, 1990; Donaldson et al., 1995), agency cost are argued to be minimal, because managers will not engage in opportunistic and self-interested behaviour, as it will damage their reputation and future employment opportunities (Donaldson & Davis, 1994). Proponents of the stewardship theory further argue that, even if agency cost are of concern, outside independent directors are not in a position to monitor management effectively due to their lack of knowledge of the firm, as well as a lack of time and resources (Donaldson & Davis, 1994).

Furthermore, whilst there have been a number of studies showing an apparent positive relationship between the number of inside directors and, for example, R&D spending (Baysinger et al., 1991), or a more balanced approach to chief executive compensation (Boyd, 1994), the overwhelming empirical evidence does not support the assertion that inside directors and corporate performance are positively linked. Hence, as stewardship theory is the flip-side of agency theory, it should not come as a surprise that researchers have not been able to establish a clear link between board composition and corporate performance (for example Dalton et al., 1998, 1999; Rhoades et al., 2000).

A further concern is that stewardship theory cannot explain those situations where management has not been acting as good stewards (Nicholson & Kiel, 2007) and that other benefits of outside directors are ignored, such as enabling access to outside resources (for example Mizruchi, 1992, 1996) as proposed by resource-dependence theory, or through providing independent advice to management (Charan, 1998). In this regard, this research does not deem it adequate to use the stewardship theory to explain decision-making and governance changes in B&B.

3.4.4 Summary

Each of the theories, as discussed above, concentrate on a single aspect of governance, that is monitoring (agency theory), stewardship, or resource provision (resource-dependence theory). Thus their usefulness is context dependent and limited to situations where conditions are reflective of the basic assumptions of each theory. This explains why neither of the theories have proven to have general, significant explanatory power. The implication of this is that these theories lack explanatory power in longitudinal studies, as it is unlikely that conditions reflective of the assumptions of any of these theories prevail over the time horizon of the study. In particular, the demutualisation and nationalisation of Bradford & Bingley fundamentally changes the governance relationship between the firm, its managements and its ultimate owners and thereby reduces the explanatory power of each of the above theories. As is argued in the following sections 3.5 and 3.6 , the corporate governance life-cycle and upper echelons perspective are more suited to investigate decision-making and governance changes at Bradford & Bingley, as they are better able to account for the changing circumstances of the firm between 1995 and 2010.

3.5 The Corporate Governance Life-Cycle

Corporate governance life-cycle theory provides an overarching framework in which to investigate the role of the board of directors in strategising, monitoring and resource-provision, by embedding these governance functions into an organisational context.

3.5.1 The Origin of the Corporate Governance Life-Cycle

Kimberly & Miles (1980) extensively described an organisational life-cycle model. Their work describes a three stage life-cycle model of creation, transformation, and decline of a firm. Building on this and others work (for example, Chandler, 1962; Haire, 1959), Smith, Mitchell, & Summer (1985) hypothesized that in each stage top management has different priorities, namely firm efficiency, economic coordination, and maintaining power and influence. Unlike Kimberly & Miles (1980), they used a life-cycle model of inception, high growth, and maturity, thus excluding the decline phase.

In addition, research supporting a multi stage model of an organisations development has been published by a number of authors (for example, Miller & Friesen, 1980; 1984; Kazanjian, 1988; Baird & Meshoulam, 1988; Pye & Pettigrew, 2005). While a variety of authors use life-cycle models with **three** (for example, Kimberly & Miles 1980; Lynall et al. 2003) and **four** stages (for example, Zahra & Pearce II, 1989; Jawahar & McLaughlin, 2001), empirical research by Miller & Friesen (1984) supports a **five stage model** (birth, growth, maturity, revival, decline). The conceptual literature on the organisational life-cycle tends to simplify the progression of firms between phases and often implies a more or less linear progression (for example, Filatotchev et al., 2006). Miller & Friesen (1984), however do not find empirical support for a linear progression, but rather find that almost any combination of life-cycle stages was observed, with the exception of birth and growth stages which were joined together.

Zahra & Pearce's II (1989) seminal paper on boards of directors and financial performance provided an extensive review of the extant literature and generated substantial directions for future research. The authors introduced a model of board attributes and roles based on the review of existing literature that related company external factors (for example, the industry, legal boundaries), internal factors (for example, the life-cycle stage, CEO style, firm size, and resource base) with the attributes, roles and structure of the board of directors and ultimately company performance. In this model, the board has three functions: service[4], strategy, and control. Furthermore, board attributes are considered to be an integral input into the model. In

4 Resource role

this research three attributes are considered: board composition, characteristics and process. These attributes will be revisited when reviewing the literature on the upper echelons perspective in Section 3.6 and in the empirical chapters. Zahra & Pearce's (1989) model integrates many of the aspects that are relevant for this research. A difference to this current research however is the weight put on the corporate governance life-cycle which is treated as a secondary factor by the authors.

One important aspect of Zahra & Pearce's research was the connection of board characteristics and corporate financial performance. Lynall, Golden, & Hillman (2003) find that the existing research does not provide conclusive evidence on the impact of the board on financial performance and conclude that this is due to a misspecification of these studies. The contribution Lynall et al. (2003) make is to see that the different stages of the corporate governance life-cycle each require different corporate governance theories. Because the governance characteristics of a firm differ fundamentally in each stage of the life-cycle, a single theory is unlikely to be able to explain all the variations and changes seen during the life of the firm. The logical conclusion is that each stage requires different analytical tools (Lynall et al., 2003).

With the firms life-cycle and the related corporate governance life-cycle being modelled on the product life-cycle, it suggested itself that the existing life-cycle models had to be extended with a fourth stage – decline / reinvention. Filatotchev et al. (2006) and Roche (2008) both introduce a fourth stage into their model. A model combining the firms life-cycle and governance roles is depicted in Figure 3.1:

		Governance Objectives	
		Wealth Creation	**Wealth Protection**
Strategic Environment	**High "Velocity"**	**Quadrant 1** Founder/IPO Threshold *Governance Functions:* Monitoring: Low Resource: High Strategy: High	**Quadrant 2** IPO/Maturity Threshold *Governance Functions:* Monitoring: Medium Resource: Medium Strategy: High
	Low "Velocity"	**Quadrant 4** "Re-invention" Threshold *Governance Functions:* Monitoring: Low Resource: Medium Strategy: Medium	**Quadrant 3** Maturity/Decline Threshold *Governance Functions:* Monitoring: High Resource: Low Strategy: Low

Source: (Filatotchev et al., 2006)

Figure 3.1: A 4 Stage Corporate Governance Life-Cycle Model

Jawahar & McLaughlin (2001) state that the most common differences between the different stages are the changing resource needs, the changing complexity and structure of the firm and managerial capabilities. Filatotchev et al. (2006) and Lynall et al. (2003) also reflect the changes in the nature of the firm. Figure 3.1 above illustrates the changing monitoring, resource and strategy needs in each of the four stages. Jawahar & McLaughlin's (2001) categorisations can be mapped onto Filatotchev's et al.'s (2006) in that it can be argued that the changing complexity and structure of the firm requires different levels of monitoring, while different managerial capabilities are required in each stage to perform the functions of resource acquisition, strategic planning and monitoring.

3.5.2 Previous Research on the Corporate Governance Life-Cycle

The corporate governance life-cycle has been used to study a variety of topics such as board composition (for example, Lynall et al., 2003; Mizruchi & Stearns, 1988; Roche, 2008), financial performance (for example, Filatotchev et al., 2006; Thompson, 1999; Zahra & Pearce II, 1989), strategy (for example, Filatotchev & Toms, 2006; Toms & Filatotchev, 2004) or governance (for example, Uhlaner, Wright, & Huse, 2007).

While there is a number of studies available, few address issues concerning demutualisation or topics relevant to building societies. For example Mizruchi & Stearns (1988) present a longitudinal study of the formation of interlocking directorates, however interlocking directorates are not relevant in the context of building societies. Roche (2008) focuses on the corporate governance life-cycle and the process of director selection and the effect of regulation (Sarbanes-Oxley Act) thereon.

Filatotchev et al. (2006) extend existing research by linking the firm's move between stages with a rebalancing of the firm's wealth creation and wealth protection functions and how adapting to these changes, or the failure to do so, may create a disruption in the firm's development. This notion is relevant for this research as demutualisation could be described as change in the life-cycle of the firm, and this change and the change of corporate form, necessitate a rebalancing of the wealth monitoring and protection functions of corporate governance. As an outcome of this rebalancing process, one would expect a corresponding change on the board of directors to reflect the new priorities on the board. Furthermore, Lynall et al. (2003) argue that the composition of the board of directors is not only a reflection of the firm's life-cycle stage, but that the relative power of the CEO and financiers at the time of inception have a lasting effect on the composition of the board. This path dependence is rejected by Filatotchev et al. (2006) by pointing out that boards do change and that there is need to understand why and how they do.

In relation to this research, this argument raises several questions regarding the board composition of current and former building societies. First of all, building societies are old organisations with many tracing their roots back over 150 years. Furthermore, at the time of their foundation there were often no professional managers or external financiers as they originated from the self-help and friendly societies movement of the 19th century. Building societies have undergone tremendous changes in their lifetime and thus it would seem unlikely that their governance roots are still having an impact on the shape of the board today. The introduction of permanent building societies with professional managers, as opposed to terminating societies with voluntary managers, would provide a starting point to investigate Lynall et al.'s (2003) argument. However, in the light of the long history of building societies and the disruptive events of the last 30 years, the path dependence theory seems unlikely to be a reflection of reality, at least for building societies. Consequently, the composition of the board of directors will be discussed in Chapter 5 and Chapter 6.

3.5.3 The Resource Function in the Corporate Governance Life-Cycle

In accordance with Filatotchev et al. (2006) and Zahra & Pearce II (1989), the importance of the resource role of governance, changes with the stage of the corporate governance life-cycle the firm is at. The relevance and strong explanatory power of the resource function of governance has been confirmed by many studies, for example, (Daily, 1996; Daily & Dalton, 1993; 1994; 1998; Daily et al., 2002; Gabrielsson, 2007; Lynall et al., 2003). Resources have the most explanatory power during the early growth phase and the decline phase of the corporate governance life-cycle. As already pointed out in this discussion, the predictions of the corporate governance life-cycle model are not a perfect fit for the event of demutualisation, where a mature firm is exposed to new competition and conducts its initial public offering. Deregulation, acquisitions and entering new markets all require additional resources or different resources to ones under firms control in the past. Thus it is suggested that the resource role of governance is relatively more important for building societies and demutualised building societies than is implied in the standard corporate governance life-cycle model.

Similarly to the corporate governance life-cycle the resource-dependence theory considers more than one function of governance. Using the resource perspective, two functions are usually put forward: monitoring and resource provision. Both the corporate governance life-cycle and the upper echelons theory also consider strategy to be an important part of governance. The distinction between capital and knowledge resources and strategic advice provides a more fine-grained distinction of the different functions of resource.

While the resource function of the board has been confirmed in the literature, it has given rise to a push for multi-theoretic approaches to studying corporate governance that makes up for the shortcomings of any theory, such as agency theory and its focus on monitoring or resource-dependence theory with its focus on resources (Christopher, 2010; Lynall et al., 2003; Zahra & Pearce II, 1989). Thus, when studying board composition, the researcher must account for all governance functions that are performed by the board in relation to the corporate governance life-cycle stage of the firm, rather than focusing on any particular function. Only then it can be assured that the role of particular directors and executives can be fully understood.

3.5.4 Application of the Corporate Governance Life-Cycle to this Research

As discussed in Section 2.3, the changes in the competitive environment of the UK financial markets led to a restructuring of the financial services sector. Existing building societies faced a new, more competitive landscape and sought ways and means to adapt to the new environment. This adaptation created a diverging path for the larger building societies. While the smaller societies continued to concentrate on their core business, many of the largest societies expanded their lines of business by moving to offer estate agent and insurance services besides a larger menu of financial products such as credit cards.

Before the liberalisation of financial services with the 1986 'Big Bang', building societies might be considered to be located in Quadrant 3 (Figure 3.1) of the life-cycle. They were members of an established industry protected from external competition by regulation and from internal competition by the BSA interest rate cartel[5]. Thus in terms of the three governance functions, the need for strategic expertise and resources was low. The range of products that could be offered was very limited and the major framework of existing regulation in form of the 1872 Building Societies Act had been in place for over a century. Due to the protected nature of the UK mortgage market, building societies enjoyed a virtual monopoly on housing finance and thus there was no need to acquire or gain access to any more resources. Finally, due to the institutional set-up of building societies as mutual firms, the management and preservation of the accumulated intergenerational endowment was one of the primary responsibilities of the board of directors, which is reflected in a high need for effective monitoring and control. The protection of the accumulated wealth of the owners of the firm was tantamount.

The first change came with the opening up of the mortgage market and other financial services for more competition. Suddenly building societies saw themselves

5 The interest rate cartel effectively broke down in 1979 (Fry, 1990)

faced with increased competition in their core markets and quickly lost market share. The opening up of new markets however also increased their opportunities to make profits elsewhere. Therefore the strategic element of corporate governance became more important as businesses had to restructure and enter new markets. Expanding into new markets also required more resources in terms of capital and managerial knowledge. While building societies had accumulated substantial capital to finance expansion they were also, for the first time, granted access to wholesale markets for up to 25 percent of their capital in 1986. In 1997, this limit was increased to 50 percent, however that was only after the largest building societies had demutualised. While the need for capital resources was limited as Stephens (2001) reported, there was a considerable need of commercial knowledge which led to an influx of non-mutual managerial expertise into the sector during the 1980s.

In terms of the existing four stage life-cycle model the best match is Quadrant 2, which represents a growing firm that has high needs in terms of strategic resources to successfully build the business, while monitoring is relatively less important due to the not so extensive resource base. In the case of building societies, this does not hold true as all of the large societies hold a considerable quantity of assets and these do need monitoring. With demutualisation the protection and growth of the intergenerational endowment ceases to be relevant. In its place moves the management and growth of shareholder wealth, so the case could be made that monitoring is still a highly important activity, though not the most important any more. Hence it is suggested that a fifth corporate governance life-cycle stage needs to be considered – Revival – based on Miller & Friesen's (1984) organisational life-cycle model, reflecting the maturity of the firm as well as changes in its business model and organisation.

In summary, Lynall et al. (2003) and Filatotchev et al. (2006) call for research investigating multi-stage transitions, that is, to study the transition of a firm across more than one life-cycle stage. They further call for application of the theory to a more diverse set of circumstances. For example, life-cycle stages 1, 2 and 4 are relatively under-researched (Filatotchev et al., 2006) and a lack of research using theories other than agency theory has been diagnosed by the same authors. Many of the papers cited here do not use agency theory as their primary theory, but use others instead such as resource-based theories (Mizruchi & Stearns, 1988; Toms & Filatotchev, 2004), or a combination of theories including agency theory (Lynall et al., 2003; Zahra & Pearce II, 1989).

This research thus heeds the call for multi-stage life-cycle research, as the demutualisation and subsequent failure of the former Bradford & Bingley Building Society offers the opportunity to investigate the changes in the role of governance with each transition to a new phase in the life-cycle. Furthermore, the theoretical focus will be on the upper echelons perspective (Section 3.6) as it complements the corporate governance life-cycle theory.

3.6 Upper Echelons Perspective

The upper echelons perspective started with a seminal article by Hambrick & Mason (1984) in which the authors propose that executive's characteristics have an impact on organisational performance. The two basic premises are:

1. *“executives act on the basis of their personalized interpretations of the strategic situations they face”*

2. *“the personalized construals are a function of the executive's experiences, values, and personality”.*

These two basic premises are founded in the theory of bounded rationality, that is that executives cannot make objective and rational decisions due to the complexity of information and the uncertainty of the situation and thus have to interpret, rather than ‘know’, the situation, which will be based on their personal experiences, values and personality (Mischel, 1977). Hambrick (2007), in a review of their original article, explained the need to study the upper echelon, or top management:

> *“if we want to understand why organisations do the things they do, or why they perform the way they do, we must consider the biases and dispositions of they most powerful actors – their top executives.”*

The upper echelons perspective is subsequently outlined and its relevance to the issues investigated by the thesis is discussed. Section 3.4 is therefore organised as follows: first the foundations and subsequent extensions of the theory are covered, then critiques of the theory are discussed and lastly issues relevant to the thesis are investigated. A graphic representation of the upper echelons theory by Carpenter & Reilly (2006) is included as Appendix B.1.

3.6.1 Foundations of the Upper Echelons Perspective

Hambrick & Mason's (1984) study introduced two ideas that each created research streams. The first idea is that focusing on the CEO alone is insufficient. Since leadership of a firm is a joint activity of several executives, it is reasonable to assume that all of the executives have some impact on the decisions taken and thus the economic outcome. Therefore it is pertinent to study the top management team (TMT), rather than only the CEO. The relationship between the composition of the board of directors and their impact on corporate performance has since been studied by a number of authors, for example Bantel & Jackson (1989), and Carpenter & Fredrickson (2001). The same relationship has been established for the link between the processes within the top management team and firm performance (Eisenhardt & Bourgeois, 1988; Simons et al., 1999). Carpenter et al. (2004) though caution that the aggregation of all executives into one team is not always advisable and that there is a need to consider not only the executive directors but also non-executive directors. While each of the two groups have distinct roles and agendas (Fama, 1980), they do both have influence on the strategic and economic performance of the firm. While Geletkanycz & Hambrick (1997) found that non-executive directors can have direct influence on the firm through contributing information, legitimacy or other resources, Carpenter & Fredrickson (2001) and Westphal & Fredrickson (2001) found that they also indirectly exert influence on the board by providing advice as well as through the selection or removal of the CEO. Indeed the change of executives, especially the CEO, can be a powerful tool to introduce strategic change and affect the performance of the firm, for example by contributing critical knowledge (Boeker, 1997) or as a signalling device (Hambrick & Cannella, 2004).

Secondly, the study by Hambrick and Mason (1984) asserted that the demographic characteristics of executives are valid proxies to predict their behaviour. Even though these characteristics are necessarily incomplete and imprecise they have been shown to be related to strategic and performance outcomes (Boeker, 1997; D'Aveni, 1990; Eisenhardt & Schoonhoven, 1990). In the absence of actual psychometric data on executives, these proxies have been proven to be useful. Lawrence (1997) described this as the black box problem of upper echelons research. Carpenter et al. (2004) also caution researchers on the use of executive demographics without reflection and argue that more sophisticated methodologies need to be developed. For example, the literature does not consider bundles of demographic properties but rather focuses on the effect of single variables such as age, tenure, education. However, individuals always carry bundles of attributes and their actions are defined by the interaction of different attributes.

3.6.2 Refinements of the Upper Echelons Perspective

Over the years the upper echelons perspective has been refined in various ways. Two important moderators affecting the predictive strength of the theory have been established. Hambrick & Finkelstein (1987) introduced managerial discretion as a relevant moderator of the predictive strength of the theory. They reconciled until then opposing views held by different theories. Strategic management posits that top executives do greatly influence organisations, while new institutional theory posits that top executives have very little influence on the performance of the firm and that the firm is driven by external forces and is constrained by norms and conventions. Hambrick & Finkelstein (1987) further argue that both views are conditionally valid and that this depends on the extent of managerial discretion. Discretion exists when an absence of constraints on top management exists, for example in form of little regulation, or when there is a "*large means-ends ambiguity*" (Hambrick & Finkelstein, 1987), that is, management has to choose from multiple plausible alternatives to make a decision. Ambiguity can be introduced by external forces, such as operating in a growing industry, or by internal forces such as a relatively weak board of directors. A further factor is the executives appetite or tolerance for ambiguity, that is, not every executive is comfortable and can handle ambiguous situations equally well. Subsequently, it follows that more discretionary environments increase the predictive strength of the upper echelons theory.

The second important moderator is whether executives operate in a demanding job environment or not. Executive job demands vary from job to job where a job is classified as less demanding if the firm operates in a secure strategic position, for example a highly regulated industry, and executives can rely on capable subordinates. In these situations executives have the benefit of time to reflect before taking decisions and can gather and weigh the evidence relevant to the decision. In contrast, executives faced with high job demands, for example in a highly competitive and fast moving industry, will have to rely on mental short cuts and past experience to make decisions in a timely manner. Therefore they are more likely to fall back on what is proven to have worked in the past and their decisions will reflect their personal backgrounds and dispositions, rather than a careful weighting of available evidence. Hambrick, Finkelstein, & Mooney (2005) anticipate that measuring job demands empirically to be difficult though they suggest that situations could be categorised as difficult / easy by factors influencing the level of job demands. The authors list three categories: task challenges (strategic conditions), performance challenges (for example demanding shareholders), and executive aspirations. Indeed, Carpenter et al. (2004) find that there is a growing amount of evidence suggesting that it is not only measurable demographics (the past) that is influencing management decisions, but also future aspirations and goals.

Further Refinements

Besides the two moderators of predictive strength of the theory, two other refinements have been added: the consideration of intra-TMT power distributions and behavioural integration. Finkelstein (1992) finds that the predictive power of strategic behaviour can be improved when the differing levels of power between TMT members are accounted for. This implies that depending on the decision at hand, a different set of executives will be with influence compared to another decision. For example, the set of relevant executives making a decision on HR related matters might be different than when a decision on financing an acquisition is taken. Finkelstein showed that firms which had more TMT members with a finance background were more likely to, and more frequently, engaged in acquisitions.

Behavioural integration asserts that top executives are not acting as one homogeneous and integrated team, but can be characterised as a competition of groups or alliances of executives for influence and power. Behavioural integration thus describes the degree to which the top management team engages in mutual and collective interaction which is signified by a sharing of information, resources, and decisions (Hambrick, 2007). Once the relevant decision-making body, or group of executives, has been identified, the integration of the group and its impact on organisational outcomes can be studied. A number of studies have shown that more integrated teams have a positive effect on firm performance (for example (Hambrick, 1998); Jackson (1992); Li & Hambrick (2005); Lubatkin, Simsek, Ling, & Veiga (2006)).

Similarly, Jensen & Zajac (2004) found that it is crucial to distinguish between subgroups among top management and that the definition of subgroups used for analysis can have an influence on the findings. Specifically they tested the impact of different definitions of the top management team on strategic implications derived from the upper echelons theory and found that different definitions of the top management team, for example with and without the board of directors, lead to different findings. They conclude that a careful identification and definition of subgroups is important for the validity of findings.

The difficulty though lies with the correct identification of the relevant decision makers which can be problematic. While certain decisions are taken by board committees, others are not, or not all relevant executives with power are on the actual committee. Hambrick (2007) suggests that identification can be achieved through a variety of sources, for example through annual reports (in case of standing committees) or through interviews with executives, though he points out that this is more challenging due to the required access to top executives.

3.6.3 Limitations to the Predictive Strength of the Upper Echelons Perspective

The less homogeneous operating environment has also implications for the two moderators of predictive strength of the upper echelons perspective: managerial discretion and executive job demands. The pre-1986 building society industry could be described as an environment that is characterised by easy job demands due to the effective monopoly building societies had on housing finance, and the Building Societies Association interest rate cartel that was in effect until 1983. This easy operating environment can be nicely illustrated by a quote from Stephens (2001) who quotes a building society executive describing his job as: "*operating in a 3-6-3 mode: pay 3% on deposits, charge 6% on loans and off to the golf course at 3pm*". The operating environment became much more complex after 1986 (for a review of demutualisation see Section 2.4). Therefore it can be concluded that upper echelon perspective has more predictive power in the post-1986 environment.

A similar case can be made for the effect of re-regulation on managerial discretion. While before 1986 building societies faced many constraints on their business model and behaviour, these were subsequently reduced in 1986 and 1997. Top management thus moved from an environment that had many constraints to an environment that provided fewer and fewer constraints on their actions. Demutualised building societies faced even fewer constraints, compared to pre-1986, than their building society competitors. Thus the upper echelons perspective should be a better predictor of organisational outcomes. This however has major implications for the role of the board of directors in this context. As the board of directors of building societies is considered to be the steward of the owners wealth, it would appear to be a breach of trust if the board engaged in hiring executives that are more likely to push for demutualisation and then for the board to propose demutualisation to members. If the initiative to demutualise had come from the owners / members of the society itself, as was the case with Bradford & Bingley, the situation would be different.

3.6.4 Critique of the Upper Echelons Perspective

The upper echelons perspective has been criticised in the past on several grounds. One important critique is on the claims made by many researchers on the link between board composition and financial performance. Pettigrew (1992) remarked that

> *"great inferential leaps are made from input variables such as board composition to output variables such as board performance with no direct*

evidence on the processes and mechanisms which presumably link the inputs to the outputs"

(p. 171)

A few years later Forbes & Milliken (1999), argue that

"the influence of board demography on firm performance may not be as simple and direct, as many past studies presume, but, rather, complex and indirect. To account for this possibility, researchers must begin to explore more precise ways of studying board demography that account for the role of intervening processes"

(p. 490)

This research however does not study the (financial) performance of Bradford & Bingley, but rather investigates intermediary board processes such as board composition and decision-making. Hence, this study is more aligned with Hillman et al. (2000) who investigate the effect of deregulation on the board composition in the US airline industry. Consequently, the study does not investigate the performance effects, but rather how boards were adapted to the new operating environment.

Some arguments made in the resource-dependence perspective mirror those made under upper echelons theory. Early studies of the resource-dependence theory has examined boards with a focus on board size and composition as an indicator to provide resources. The underlying idea is that boards are not a collection of random individuals but that the composition of the board is based on a rational response to external factors and the environment. Similarly the upper echelons perspective considers the composition of the top management team and how it effects the organisation.

Pearce & Zahra (1992) criticise the view of boards as resource providers as too simplistic and narrow and argue that board composition is influenced by other factors as well, such as firm size, strategy and financial performance. Further, Boyd (1990) suggested that not only the number, but also the type of director, matters, again mirroring upper echelon arguments about the importance of demographics in individual executives and groups of executives.

Research on executive turnover is also remarkably similar to findings generated by researchers employing the upper echelons perspective. For example, it is argued that executive turnover can be attributed to a misalignment of organisational behaviour and the environment, thus the CEO is replaced with someone else who is better at aligning the organisation with its environment (Pfeffer & Salancik, 1978). Also Harrison, Torres, & Kukalis (1988) find that firms with a higher dependence on the external environment experience a higher executive turnover rate. This higher rate of environmental uncertainty also affects the choice of manager as Guthrie & Olian (1991) found. The authors found that in a more uncertain environment, diverse business experience and shorter tenure in a particular business unit are seen as an advantage. Again, this mirrors research in the upper echelons perspective, which found that in situations of uncertainty top executive teams had less industry experience and a relatively shorter tenure at the helm of the firm (Keck, 1997).

3.6.5 Implications for Research

Though the basic logic of upper echelons perspective has been shown to be sound, that is, "*executives make choices on the basis of personalised construals of situation they face*" (Hambrick, 2007), there are issues that researchers need to be aware of and need to consider in their study design and methodology. One such problem is that of reverse causality. In particular, is Top Management Team (TMT) composition the driver of the observed action, as posited by the perspective, or is the observed TMT composition a result of the self-selection of members with specific profiles that leads to the observed action. In terms of the demutualisation of building societies, this would be the difference between (a) the pre-existing board taking the decision to demutualise based on their personal construals, or backgrounds and perceptions of what is best in the current strategic situation and (b) the board could be taking the decision to demutualise because executives with a predisposition to demutualisation are entering the board so that we later observe the outcome of demutualisation.

Most upper echelons research is quantitative and therefore usually use cross-sectional data sets which reduces the ability to identify causality, as any particular case of reverse causality is drowned out in the data. In qualitative research, like this study, this problem is not present. In particular, interviews with directors will enable insight into their thinking and shed light on the causality of events.

Carpenter et al. (2004) add further words of caution. First of all, research has proven a positive relationship between board heterogeneity and top management team size and therefore board size needs to be controlled for. Furthermore, they find that executives functional background is a better predictor of strategic outcomes during the early parts of the executives tenure and that the effect reduces with time. They posit that this is due to the executives becoming more embedded into their setting and adapt to their particular surroundings. They call for more longitudinal and qualitative research on this effect. Finally they call for researchers to combine the upper echelons perspective with other theories in order to make better predictions of the impact of the upper echelons on the firm. Strandholm, Kumar, & Subramanian (2004) is an example of such an integrated model.

Even though upper echelons research is mostly conducted in the United States, hence the strong focus on empirical studies, it has been shown to be applicable in international contexts as well (Crossland & Hambrick, 2007; Hoffman & Hegarty, 1993; Kadushin, 1995; Kwee et al., 2011; Wiersema & Bird, 1993). Other researchers have successfully applied the upper echelons perspective in different life-cycle stages of the firm as well in different business and corporate strategy settings (Cannella & Hambrick, 1993; Eisenhardt & Schoonhoven, 1990; Hambrick et al., 1996).

Keck (1997) adds another relevant aspect to the use of upper echelons theory. She investigated the TMT heterogeneity and tenure across industries and found that in stable industries, long-tenured and homogeneous teams were most effective, whereas in a more complex (competitive) environment short-tenured and heterogeneous teams were most effective. Additionally she found that the most successful firms matched their TMT structure to the environmental conditions present in their industry. This has implications for effect of re-regulation of financial markets on building societies. As the building society industry had been characterised by a very stable environment for most of their recent history, the BSA Act of 1986 introduced major changes that brought major competitive changes and created a more complex and competitive environment. Therefore it should be expected that successful building societies adjusted their top management team accordingly and that demutualised building societies followed the same trend, possibly to an even larger degree.

3.7 Complementarity of the theoretical perspectives

Under the upper echelons perspective, contextual factors describe a broad range of organisation-level and environment-level characteristics that may impact or moderate Top Management Team (TMT) Characteristics, Mediating Strategy Processes and TMT Decision-Making. In that it is not dissimilar to the velocity of the environment under the corporate governance life-cycle. The velocity of the environment in effect describes environment-level characteristics, for example the intensity of competition or regulatory changes. Furthermore, the corporate governance life-cycle, in its analysis of the transformation of the firm, provides the framework in which to evaluate the constructs of the upper echelons theory. TMT Characteristics are complementary to Knowledge Resource as they describe the same phenomenon, board change and composition, but from slightly different angles. Whereas Knowledge Resource focuses on broadly demographic factors (for example, age, background, employment history), TMT Characteristics focuses on 'softer' factors such as attitudes, diversity, skills and knowledge. Also the analysis of the strategic changes of the firm is important to the upper echelons theory. Strategic changes under the upper echelons perspective are generally considered to be caused by executives and thus to understand the strategic choices made, the experience, knowledge and biases of executives have to be studied.

Hence, the upper echelons perspective and corporate governance life-cycle theory complement each other in examining the transformation of Bradford & Bingley by focusing on different, but complementary, aspects of the firm, such as strategy, board composition and the context of the firm. As such, establishing distinct periods or life-cycle stages provides a framework in which each period can be examined using the upper echelons perspective to gain a deeper understanding of what contributed or triggered change within and between each period or stage. Finally, both theories consider organisational outcome to be the final product of decision-making and transformation.

3.8 Conclusion

This chapter provides the theoretical background for this research, discussing the corporate governance life-cycle theory and upper echelons perspective. It begins by briefly summarising the role of non-executive directors on the board as seen in literature originating from the field of agency theory and resource-based theories. In doing so, it sets up the argument that directors have a variety of roles and responsibilities which they perform within a team. These roles and responsibilities are represented in the corporate governance life-cycle model through the three governance functions of strategy, resource and monitoring. Within the upper echelons perspective the focus is on the attributes and skills of the individual director and their impact on team decision-making. This focus on team decision-making relates to the three governance functions in that the board or sub-groups of directors, as a team, develop strategy, decide on the required funding and board composition to support the strategy, and finally non-executive directors monitor the implementation and adherence or deviation from the strategy.

Thus the upper echelons perspective is instrumental in providing a richer insight into the development of a firm within and transition between life-cycle stages by adding detail to the deliberations and perceptions that led to changes in the three governance functions. Figure 3.2 below depicts the constructs used in this research and their relation to one another.

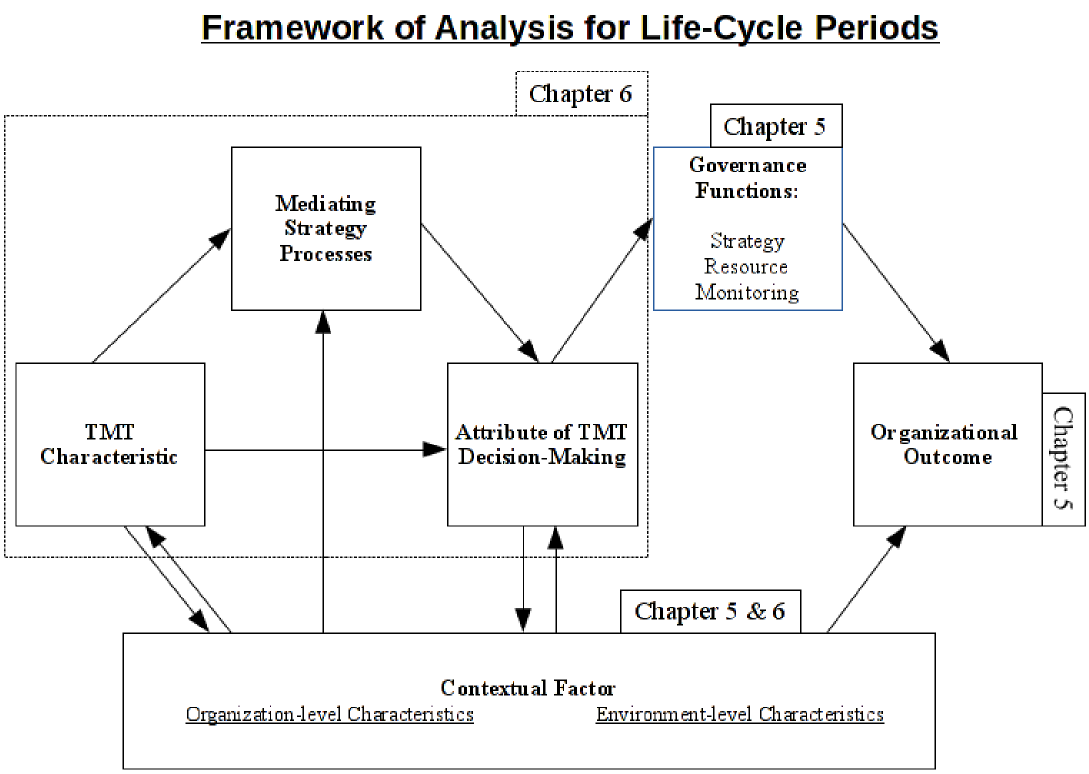

Figure 3.2: Combined Framework of Analysis

Chapter 4

4 Research Methodology

4.1 Introduction

There is a plethora of methodology texts that have been published in the social sciences including accounting, organisational studies and other areas of research. Some texts focus on general research methodologies, (see for example, Saunders, Lewis, & Thornhill, 2012), specific research methodologies, (see for example, Eriksson & Kovalainen, 2008; Flick, 2006; Silverman, 2011; Yin, 2009), and research methodologies specific to a particular areas, for example, Bryman (1989) in organisational studies or Smith (2003) in accounting. As with previous studies on specific research methodologies, this chapter seeks to further justify the choice of research methods and data analysis.

The objectives of this chapter are therefore to discuss the research approach and methods chosen, as well as the limitations of these choices. This research is qualitative in nature and relies on a combination of semi-structured interviews with top management team members of Bradford & Bingley, and documentary data from a variety of sources. Additionally, this research combines two theories, the corporate governance life-cycle and the upper echelons theory to investigate the transformation of Bradford & Bingley between 1995 and 2010. The corporate governance life-cycle theory is used to study the strategic and organisational change of the firm, while the upper echelons theory is used to study how the top management team interacted and made decisions during key periods of Bradford & Bingley's transformation.

4.2 Research Design and Method

Qualitative research, compared to quantitative research, is more subjective in its nature, in that it relies on the researcher to make inferences and judgements in analysing the data and in developing a narrative based on the analysis. The value of qualitative research to this study is in its value in examining and reflecting on the perceptions of individuals and groups, to gain an understanding of the social and human activities, while placing a greater focus on the socially constructed nature of reality. Furthermore, social phenomena, such as top management team decision-making can not be measured objectively, nor can it be quantified. Hence qualitative research emphasises the interpretations of individuals and groups of their situation within a given context, thus attempting to make sense of their perceptions, motivations and actions.

Qualitative research is therefore the appropriate method to investigate the transformation of Bradford & Bingley, as the focus is not only on the 'what', 'when' and 'how' of organisational change, but also on the 'why'. In investigating the 'why', the perceptions and motivations of top management team members are considered, as they are central to understanding organisational change. However, perceptions and motivations are not quantifiable and thus not appropriate for quantitative research. Furthermore, this study not only considers the what, when, how, and why, but also their context, helping to provide a deeper understanding of the issues faced by the directors of the society/bank. Thus, considering these issues, qualitative research using semi-structured interviews was determined to be the appropriate method of research and data collection.

4.2.1 Single Case Study Approach

A single case study is appropriate for this study due to the lack of in depth qualitative research in corporate governance life-cycle transitions as well as a bias of upper echelons and corporate governance research in favour of quantitative methods. A case study addresses these methodological issues, as well as issues of cross-sectional qualitative studies (for example, Roberts, McNulty, & Stiles, 2005), which trade depth, detail and nuances for generalisability and breadth of data, thus potentially missing important details that could contribute to knowledge of board decision-making and organisational change. The case study method therefore allows for the exploration and understanding of a contemporary phenomenon, while allowing for the investigation of the 'why' and 'how' of the case and tracing the links between decision-making, corporate governance and board composition (Yin, 2009).

Hence a single case study analysis is appropriate, as this study focuses on capturing the details of the evolution of Bradford & Bingley between 1996 and 2010 in order to explore and understand the complex issues and considerations of the society's / bank's top management, as well as their consequent actions upon these considerations. A further factor for focusing on a single case study, was the limited time and resource available in conducting this study, in particular considering the difficult nature of accessing elites for in depth interviews. Hence, in line with Walsham (1993) it is argued that:

> *"From an interpretive position, the validity of an extrapolation from an individual case or cases depends not on the representativeness of such cases in a statistical sense, but on the plausibility and cogency of the logical reasoning used in describing the results from the cases and in drawing conclusions from them."*
>
> *p. 15*

Thus, this research seeks to uncover the details and perceptions of organisational change and transformation at Bradford & Bingley using high quality data in order to provide a rich description and analysis of the events that led to the firms transformation, decline and ultimate revival. A single case study approach is therefore adopted.

4.2.2 The Choice of Semi-Structured Interviews

Interviews form a substantial part of the data collected for this research. There are three different ways to conduct an interview: structured, semi-structured and unstructured. Structured interviews contain a set of predetermined questions, much like a survey, and thus allow for very limited interaction between the interviewee and researcher. In consequence it would limit the possibility of collecting data that is outside of the, prior to the interview, anticipated issues and themes. Unstructured interviews on the other hand are akin to a conversation, without a predetermined goal or set of questions, and thus more suitable for more exploratory research. Consequently, semi-structured interviews were chosen for this research as they impose some structure on the interview which aids in the analysis of the data. Furthermore, it allows the interviewer to pose key questions in an open-ended manner, harnessing the advantages of both structured and unstructured interviews.

Semi-structured interviews confer a number of advantages in collecting data on participant's perceptions of the 'how' and 'why' of organisational changes at Bradford & Bingley. These perceptions and participant's opinions, experiences and sense-making cannot be obtained through other means. However, because of the involvement of the researcher in the conversation, the researcher's behaviour and comments may influence responses, either by encouraging participants to reveal more or less information than they otherwise would. In addition, the sensitive nature of the subject matter and the involvement of potentially confidential or sensitive information, requires adaptability to the situation of the researcher as well as that of the interview guide, to maximise the information shared by participants while respecting their confidentiality and anonymity.

Nevertheless, semi-structured interviews allow for interaction between the researcher and interviewee and allows the researcher to ask follow up questions to further clarify contexts, or to flexibly adapt the order of questions in response to the direction of the conversation (Saunders et al., 2012). Hence, an interview topic guide (Appendix C.3), covering four main areas was prepared, each with sub-questions on various aspects that had been identified as important in the literature.

4.2.3 Interviewing Elites

Interviewing elites, as this study does, begs the question of what an elite is. The early work in studying elites (Dexter, 1970), has been criticised for failing to clearly define who the elite is constituted of (Richards, 1996), though they are often seen as minorities at the top of the employment and income scale (Woods, 1998). However, position alone is not necessarily an indicator of having elite status, as such a position can easily be lost. In contrast, individuals that hold strategic positions within a network and thus act as connectors and bridges can be considered elite members (Burt, 2009). Furthermore, place and time may be important factors in assigning elite status. For example Savage & Williams (2008, p.13) state that the composition of the FTSE100 between the early 1980s and today have changed significantly and thus the composition of the elite has changed too.

In the context of this research and following Harvey (2010), elites for the purpose of this study are thus defined as members of the key decision-making bodies of Bradford & Bingley, that is individuals at the apex of the organisation that have the opportunity to influence the trajectory of the organisation. Hence, the top management team, defined as all executive and non-executive board members, are considered relevant to this study. In breaking down the top management team, persons of interest would hold positions such as chairman, vice-chairman, chief executive, finance director, company secretary as well as other executive directors and non-executive directors. As mentioned above, belonging to an elite can be temporal phenomenon and with this research having a longitudinal aspect, top management team members past and present are potential interviewees.

Interviewing elites can provide essential data in a number of situations. In particular, interviews with key players can provide valuable information in reconstructing events and the build up to an event, for example demutualisation at Bradford & Bingley. In addition, this research seeks to establish the perceptions and opinions of top management team members on decision-making during different periods of Bradford & Bingley. Hence, interacting with current and former directors provides direct access to each individuals opinions. Lastly, elite interviews can be used to corroborate information gained from documentary sources.

Nevertheless, potential pitfalls of elite interviews have to be considered. First, given that the population of potential interviewees is very limited to begin with, the number of interviews may not be sufficient to provide a representative sample. Furthermore, access to key decision-makers is generally not easy due to a number of factors, such as busy schedules. As such, the data generated from interviews may not be sufficiently robust. Hence this study is using documentary data in addition to interviews in order to triangulate and support the interview data, thus increasing the reliability and validity of the conclusions.

A second concern is the potential for self-aggrandisement of interviewees. As a key decision-maker, their reputation and recognition by peers is important in fortifying their authority. As such they have to be seen to be in control. Given this, there is a risk that interviewees will project an overly positive image of themselves, showing them to be in control of a situation, or claiming to have acted deliberately in order to create a positive outcome, when other structural factors were more important in determining the given outcome. Again, in trying to avoid such pitfalls, the interviewer needs to remain aware of such tendencies. In seeking to minimise the negative impact of such behaviour, triangulation, as well as a critical mind and probing during interviews, is key.

Another concern of elite interviewing are the power dynamics between interviewer and interviewee, especially when the interviewer is a junior researcher without established credentials. Thus it is imperative for the researcher to be well prepared and knowledgeable about the subject in order to instil confidence in themselves. Furthermore, good knowledge of the interview questions as well as adequate information about the interviewee is crucial. The appearance of professionalism thus acts as a signalling device showing that the researcher has taken the time to prepare and respects the interviewee's time and position. Another way of gaining rapport is through discussing shared interests or something the interviewer has read or seen (Richards, 1996; Peabody et al., 1990). In addition, another source of legitimacy may be institutional affiliation. Harvey (2010b) reports that he found that common institutional affiliation, for example, alumni of the same university, made gaining access more successful. Similarly, in this case it can be surmised that a University of York-based researcher studying a Yorkshire building society has more legitimacy than a non-Yorkshire-based researcher. Also a number of potential interviewees still live in Yorkshire and thus may be more predisposed to participating in this research. In addition, being located in Yorkshire makes access to interviewees living in the region easier and allows more flexibility to arrange a suitable interview location.

When arranging an interview with an elite member, flexibility in location, date and time is essential. For example, Harvey (2010b) states that the location will have an impact on the type and amount of information an interviewee will be willing to divulge during the interview. In citing McDowell (1998) the author argues that having an interview in a place where it could be potentially overheard by the interviewee's co-workers, might make the interviewee more guarded. Another consideration is the ambient noise level of outside locations. As much as an interviewee might be overheard when the interview is held in an office or conference room, holding an interview in a public location, such as a café or over lunch, has its own set of problems. In particular, the ambient noise level could inhibit a good quality recording. Similarly one could be overheard in a public place, which again the interviewee might consider when answering questions (Harvey, 2010a). Considering this, interviewees were offered free choice of location for the interview, as well as time and date, to allow them to choose a place in which they would be comfortable. In the course of this research, interviews were conducted in a variety of private and public locations, such as a café (when it wasn't busy), on university premises, and in private homes. In all cases interviewees seemed comfortable in their chosen location. Furthermore, some interviewees were more busy than others, such that some interviews were time limited, while others were more flexible in their schedule.

During the interview, it is important to have a conversational flow (Harvey, 2010b) and to keep the interviewee engaged. In particular, it is not recommended to ask closed-ended questions (Aberbach & Rockman, 2002, p. 674), as it does not allow for a conversational flow to start. Furthermore, it does not allow for interviewees to answer the question as elaborately as they wish. Thus, it was found while conducting the interviews, that open-ended questions often prompted long and detailed answers, as well as interviewees adding details and information that could not have been anticipated by the researcher.

In summary, the researcher implemented the techniques discussed above during the interviews. Given the number and length of interviews that were conducted, it is argued that the problems and barriers discussed were overcome and that the researcher managed to establish his credentials and built credibility with the interview participants.

4.2.4 Secondary Data and its Use as Empirical Evidence

In addition to collecting data using interviews, this study also relies on data selected from secondary literature and archival documents. First, evidence is gathered from building society history written by other authors (see for example, Ashworth, 1980; Boleat, 1965; Cleary, 1965; Price, 1958). The secondary literature on building society history is important in understanding the background and origin of Bradford & Bingley with a particular view to strategy and top management team. Other secondary sources include a wide range of documents such as annual reports and other documents produced by Bradford & Bingley for public use (Chairman's Statements, Press Releases). In addition to documents created by the organisation itself, other documents originating from third parties are also considered in the analysis, such as news reports, parliamentary records and regulatory documents.

These secondary documents enable the researcher to link the different perspectives of each of these interested parties to the interviews, in order to develop or draw a comprehensive picture of the transformation and decline of Bradford & Bingley.

Of particular interest to this study are statements made by key top management team members throughout the study period, that is, 1995 – 2010. Any public comments made by representatives of the firm with a view of influencing or projecting a certain image to important stakeholders were considered. Though this type of information is systematically biased, it nevertheless is useful in highlighting important issues relating to the firm. A special role in this context is contained within the Chairman's Statement in the annual report. The annual report is the main form of corporate communication in both qualitative and quantitative form. They are strategic documents in which the firm accounts for its actions over the past accounting period, but also includes a forward looking element, in particular through the Chairman's Statement. The statement not only contains essential information which complements the quantitative aspects of the annual report, but also adds information of value to a variety of different users as the narrative reporting information is useful for decision-making purposes. In particular, the statement contains non-quantifiable information on trends and factors specific to the economy and industry, as well as statements on current, future and past strategies and actions by management. Smith & Taffler (2000), support the assertion that the Chairman's statement are unaudited managerial disclosures containing important information pertaining to the future of the company. Consequently, other secondary documentary sources originated by the company will be viewed similarly in this study.

4.2.5 Ethical Risks and Ethical Approval

During the course of this research a number of ethical issues may arise, in particular during data collection and the use of data in the empirical chapters. Saunders et al. (2012, p.129) define ethics as *"the appropriateness of your behaviour in relation to the* *rights of those who become the subject of your work, or affected by it".* Thus key issues have been identified as: invasion of privacy, lack of informed consent, maintenance of participant's confidentiality and anonymity, deception of participants, and misuse of data (Saunders et al., 2012; Bryman & Bell, 2007). In order to minimise the ethical risks arising from this project, ethical approval was sought and granted by the Economics, Law, Management, Politics and Sociology Ethics Committee (ELMPS) of the University of York. In following approved ethical practices, this research sought to minimise ethical risks to the participant, research and institution.

Specifically:

(a) It was ensured that all participants gave their informed consent by signing a consent form. Information regarding the project together with the invitation to participate, and contact details to discuss any queries, in advance of the interview, were also provided. Finally, information regarding consent was repeated verbally, at the start of the interview.

(b) The danger of invasion of privacy was reduced by letting participants choose an interview location of their preference.

(c) Confidentiality and anonymity are preserved by assigning code names and numbers to each interviewee. These code names and numbers were used in all documents that are not solely privy to the researcher.

(d) Deception and misuse of data is minimised by all interviewees being offered a copy of the results.

In addition, one interviewee requested pre-authorisation of any quotes attributable to him/her prior to publication. Having taken these steps, ethical risks have thus been minimised by careful planning of data collection. Subsequently, ethical approval of the research plan followed.

4.3 Data

This section describes the data collection process for interviews as well as documentary evidence. In particular, the interviews, documents used, and the process of data analysis are discussed.

4.3.1 Interviews

Interview Sample This thesis, being a case study, has a finite population of top management team members. Top management team members relevant to this work are defined as all directors working at Bradford & Bingley between 1995 and 2010. The total number of potential participants is thus 35. Using the electoral roll, as well as directories of directors and online searches, mailing addresses for all potential participants were sought. For five directors no current mailing address could be established, while multiple potential addresses could be found for a number of directors. Thus, using multiple addresses, a total of 47 letters were sent to 30 interviewees in June 2013. All identified individuals were mailed an interview information pack including a participant information sheet, reply slip and a pre-stamped and pre-labelled return envelope, a copy of which is found in Appendix C. In total seven recipients agreed to be interviewed for this study, while four declined. The positive response rate was 23 percent and total response rate was 37 percent. As previously discussed, in order to preserve confidentiality, all interviewees were given code names which are listed in Table 4.1.

Director	Period
Director A	Period 1*
Director B	Period 4**
Director C	Period 1*
Director D	Period 1*
Director X	Period 1*
Director Y	Period 4**
Director Z	Period 1*

* (1995 – 2004) ** (2008 – 2010)

A detailed description of the periods is presented in chapter 5

Table 4.1: Director Code Names

Interview Process and Technique The interviews were conducted between July and September 2013. Prior to the start of the interviews, the researcher briefly summarised the purpose of the project and sought verbal agreement to proceed with the next step. Interviewees were asked to date and sign a consent form (seen in Appendix C.2) prior to starting the interview. The consent form included the permission to audio record the interview to which all interviewees agreed. Nevertheless agreement to audio record the interview was also sought verbally prior to starting the recording. None of the interviewees seemed uncomfortable with being audio recorded, which, the researcher surmises, might be due to their being accustomed to being questioned as part of their career. Finally, all participants were reassured of their anonymity and that no personally identifiable information would be published by the researcher, though absolute anonymity could not be guaranteed. The seven interviews lasted between one and three hours. Due to time constraints by the interviewee, one interview had to be postponed after one hour and was concluded via telephone a few weeks later. The interviews were transcribed by a reliable transcription service used by numerous academics of the University of York. All transcriptions, recordings and related materials are securely stored on University of York servers with access limited to the researcher only. Any recordings, transcripts and derived materials such as notes and coding, that had to be transferred to a different device for use or transport purpose, have been encrypted prior to any transfer, with the decryption key only known to the researcher. Furthermore, any device outside university premises that held these files, utilised full hardware encryption. Hence, even in the event of the loss of a device, the data is inaccessible to any third party.

To begin the interview, each interviewee was asked to describe their role and the main tasks and responsibilities they had/have, as well as how they got to join the organisation. These opening questions were aimed at putting the interviewees at ease, and, judging from the often long and detailed answers was successful. Once interviewees were comfortable presenting their opinion about what happened at Bradford & Bingley during their tenure they needed few prompts to speak at length about their experiences. This situation aligns with both Nelson & Bruner (2006) and White (1989) who observed that story telling about the past is natural to humans. At the same time the story telling process may also be a sense-making process of the past for the participants; the role of story telling and sense making will be picked up in Section 4.4.1 when reflecting on the interviews.

Furthermore, what was sought in these interviews was the interviewee's own understanding and the meaning they give to past events (Riessman, 1993); as the participants' perspective was sought, there was no, often single, objective view that could be objectively verified using other data. Thus there were often differing accounts and perspectives presented about the same events by the interviewees, and it is for the research to make sense of the competing perspectives and present a reasoned interpretation of events.

Again, in the course of the interview, it was important for the researcher to remain neutral and not to inject any personal interpretation or opinion of events into the debate so as not to steer the interviewee in a particular direction. At the same time, the researcher had to be perceptive and sensible to the interviewee's changing moods and emotions in order to support the flow of the conversation. Furthermore, probing questions were asked when answers needed to be clarified or elaborated, or if the interviewee's answers introduced hitherto unknown information or aspects. Overall the interview topic guide was used as a check list to ensure that all areas were covered during the course of the interview, and so not to forget any specific questions that had previously been identified as important. Though the interviews focused on interviewee's perceptions and experiences, some of the information could be verified with publicly available documents.

The interview process provided sufficient flexibility and enabled the pursuit of new information that arose from the interview, offering a great depth of information on the transformation of Bradford & Bingley. The success of the interview approach chosen is highlighted by the fact that the majority of interviews lasted two to three hours.

4.3.2 Documents

The majority of documentary data used in this research is available online, as listed in Table 4.2. Besides a comprehensive search of the former Bradford & Bingley web site, additional historical information was obtained through the Building Societies Association Archives which stores pre-demutualisation information on Bradford & Bingley, including annual reports and news items. Finally, a comprehensive search of UK newspapers archives for reports relating to Bradford & Bingley and any of its directors during the period of investigation was conducted using Nexis UK. It also has to be noted that in collecting documentary evidence access to Bradford & Bingley corporate archives was sought, but ultimately not granted, with no explanation provided. Given the sensitive nature of the case study, it does not come as a surprise that access was not granted, especially considering potential legal repercussions should any damaging information be published, as well as the ongoing legal and regulatory challenge of the Bradford & Bingley Shareholders Association (BBSA) to nationalisation.

The purpose of the documentary evidence was to place the data collected from the interviews into context, but also to clarify and confirm information derived thereof, as well as to supplement interviews where necessary (Silverman, 1998).

Document	Years	Source
Bradford & Bingley Annual Reports	*1995 - 2013*	The Bradford and Bingley Corporate website; The Building Societies Association website (prior to 2002); The UK Asset Resolution Limited website.
Interim Financial Statements	*2002 - 2009*	The Bradford and Bingley Corporate website.
Annual General Meeting (AGM) Records (Chairman's Statement, Proxy Figures, Resolutions)	*2002 - 2008*	The Bradford and Bingley Corporate website.
Extraordinary General Meeting (EGM) Records (Chairman's Statement, Circulars, Q&A Letter)	*2008*	The Bradford and Bingley Corporate website.
Mortgage Express Confidence Studies	*2005 - 2009*	The Bradford and Bingley Corporate website.
Financial Conduct Authority (FCA) Enforcement against C Wilford (Finance Director 2005 - 2009)	*2013*	The Financial Conduct Authority website.
Bradford & Bingley Press Releases	*2000 - 2009*	The Bradford and Bingley Corporate website.
Bradford & Bingley Investor Call Transcripts	*2007 - 2008*	The Bradford and Bingley Corporate website.
Bradford & Bingley Investor Presentation Slides	*2007 - 2008*	The Bradford and Bingley Corporate website.
News Reports	*1998 - 2008*	The LexisNexis® database; The Building Societies Association Archive.
Parliamentary Inquiry into Failure of Bradford & Bingley	*2008*	Hansard - Parliamentary proceedings.

Table 4.2: List of Documentary Sources used in Research

4.3.3 Data Analysis

The data gathered from the interviews were taken at face value, that is, the researcher generally assumed the honesty and sincerity of the interviewees unless there was information indicating otherwise. As far as possible, information provided by the interviewees, was triangulated using the other data gathered or through comparison of interview transcripts. Furthermore, no qualitative analysis software was used given the number of interviews. To analyse the data the framework analysis approach was followed (Rapley, 2011). Hence, in familiarising with the data, the researcher read and reread transcripts multiple times and in the process referred back to the field notes taken during and after the interview, as well as any statements made off the record. In the process of reading the transcripts, major themes were identified and recorded. Further reading and comparison of thematic statements made by interviewees revealed differences in perception and point of view within each theme. Again, even though the honesty and sincerity of the participants' sense-making and perceptions was taken as given, the researcher sought to identify any hidden meanings which may be hidden between the lines.

The two theories employed in this research use different constructs and therefore the data had to be coded differently for each empirical chapter. For the first empirical chapter (Bradford & Bingley in the corporate governance life-cycle), using the corporate governance life-cycle theory, the three constructs of Strategy, Resource and Monitoring were initially defined based on the literature. The transcripts were then read and reread in accordance with the three themes and any passages and particular statements were recorded. Within each construct, all recorded statements were again read and compared and contrasted to other statements within the same construct to identify similarities and differences. In the course of this process two constructs of Resource emerged: Finance and Knowledge. Financial Resources are thus defined as the funds the firm requires to implement its chosen strategy, whereas Knowledge Resources are defined as the skills and intellectual knowledge of its staff that the firm requires during a given period. These four themes of Strategy, Financial Resource, Knowledge Resource, and Monitoring form the basis of discussion in Chapter 5.

This approach also identified particular events and people that had an impact within these constructs. Consequently the documentary data gathered was also searched for these particular events and people for further information or statements with the aim to add to, contrast and verify the narrative originating from the interviews. The primary sources of information are the Chairman's Statement and Chief Executive's Report of the Annual Reports 1995 to 2010, as well as press releases and newspaper articles. The Chairman's and Chief Executive (CE)'s Statements were chosen for their centrality to communicating the firm's achievements and future strategy. Even though these statements are not audited, they are the platform in the annual report to communicate forward-looking information about the firm.

In order to identify this information on strategic initiatives in the annual reports, Andrews (1997) definition of strategy is used: *"the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue"*

For the second empirical chapter (Board Processes between 1996 – 2004 and 2008 – 2010), using the upper echelons theory, the main constructs were identified based on literature, in particular referring to Carpenter & Reilly's (2006) model. The five constructs of Contextual Factors, TMT Characteristics, Mediating Strategy Processes, Attributes of TMT Decision-Making and Organisational Outcomes were thus defined. All interviews were also read and reread to identify any statements pertaining to each of the themes. Once again, after the transcripts were read several times and all statements belonging to each construct had been recorded, these aforementioned statements were analysed for common themes within each construct. This process turned up a number of sub-themes for each construct as well as a hierarchy of codes. Finally, from this process of repetitive coding and refinement, a final set of themes and sub-themes emerged (King, 2004).

4.4 Problematising Research Approach

4.4.1 The Limitations of Interviews

As with other research methods, interviews, though they are ‘a dynamic vehicle for exploring the rich and complex body of information possessed by an individual’ Cavana, Delahaye, & Sekeran (2001, p. 150), do have limitations.

First, the object of this research is the upper echelon of the firm, which is naturally limited to a select number of directors at any point in time. Thus, even though this research used a longitudinal approach, only a limited population of interviewees was available. While every effort was made to recruit as many interviewees as possible, there is an inherent selection bias as some potential interviewees are more likely than others to participate. For example, those directors which had a vested interest in publicising their point of view or sought to protect their reputation, might be more willing to come forward. Also, those that are not currently in a demanding role are more likely to be able and interested in participating in this research. In contrast, those directors which considered that they had more to lose from participation that they would gain are highly unlikely to respond to a request for an interview. Thus there is a self-selection bias within the interview sample.

Further to the issue of selective information provided by the interviewees, is the problem of interviewees recalling their memory to relay past events, some of which are by now 20 years ago. It is possible that their recount of stories is not necessarily the full account of what happened. As the stories are recounted from past events, some interviewees may also have forgotten particular details and have, over the years, gone through a sense-making process. The events recounted could therefore be made through 'rose-tinted glasses' and further are a subjective, and selective, rather than an objective, and complete, recollection of events. As such, interviewees may have been less than candid in the opinions they expressed and may have expressed views which are perceived as socially desirable and representative of what they believe the researcher wishes to hear (Saunders et al., 2012).

These limitations however can’t be avoided, but need to be taken into account when analysing the data and can be somewhat addressed through comparing and contrasting the views of interviewees of the same period. Furthermore, the researcher is told a recollection of memories and interviewees have gone through a sense-making process of their memories in the past, thus taking these memory fragments to form a coherent and logical interpretation of their experiences. These stories are then relayed to the researcher through the interview process. To the researcher though, the interviews form story fragments, which he combines to create a coherent and logical story of events. This repetitive recombination of story fragments into coherent stories creates a situation where bias, both from the interviewee as well as the researcher, may alter the story in a way which does not resemble actual events. Nevertheless, these limitations associated with interviews were lessened by conducting face-to-face interviews using a semi-structured interview technique. Face-to-face interviews allow for verbal cues to be identified and help develop a better rapport and trust between the researcher and interviewee. In addition, it is important to reach a saturation point with interviews, that is, the point when interviewee stories resemble each other and thus the researcher can be confident that the data gathered sufficiently approximates actual events.

4.4.2 The Limitations of Documents

The data sources for this research included the use of previous literature, and annual reports as well as other documents produced by Bradford & Bingley for public use. Whilst documents produced by an organisation, for example official company publications, are known to be an influential and valuable communication medium for reporting information, it is possible that the information provided in these documents may contain subjective information in an attempt to convey a message or influence someone’s point of view. Similarly, newspaper articles are not without bias insofar as the author of these makes choices on the language and content of the articles. Hence, Atkinson & Coffey (2011) argue that documentary sources are not transparent representations of organisational decision-making processes or practices, with Platt (1999), arguing that the authenticity of documents have to be established in order for them to be fully and correctly understood. Furthermore, another limitation of documents is the availability of the desired documents and the researcher’s decision of when to stop searching (Platt, 1999).

4.4.3 Reliability and Validity of the Research

Reliability and validation of research is an important criteria in establishing and assessing the quality of research. As reported in Section 4.3.3 transcripts were read several times to pick up any missed quotes or words in the first instance. Moreover, the findings of some of the interviews were validated by asking follow-up questions to respective interviewees. In verifying the findings the researcher can be more confident of their validity. This is known as respondent validation (Silverman, 2011).

Furthermore, in enhancing the reliability and validity of this research, triangulation was employed. Triangulation is a strategy for improving the validity and reliability of research or evaluation of findings. It is defined as ‘a validity procedure where researchers search for convergence among multiple and different sources of information to form themes or categories in a study’ Cresswell & Miller (2000, p. 126). Mathison (1988) further argues that

> *“Triangulation has arisen as an important methodological issue in naturalistic and qualitative approaches to evaluation [which] have demanded attention to controlling bias and establishing valid propositions because traditional scientific techniques are incompatible with these alternate epistemologies.”*
>
> *(p. 13)*

Hence, in employing the use of triangulation in this research, documentary data was used in order to corroborate and support the interview data.

4.5 Summary

This chapter has presented a discussion of the research design and method of this thesis. The case study approach together with the interviews conducted were discussed in this chapter. Furthermore, the data sources and data collection methods employed in this research were presented, as well as the limitations involved in using these sources. The next chapter, Chapter 5, is the first of the two empirical chapters in this thesis. It examines Bradford & Bingley in the corporate governance life cycle in the period between 1996 – 2010.

Chapter 5

5 Bradford & Bingley in the Corporate Governance Life-Cycle

5.1 Introduction

This chapter places Bradford & Bingley’s recent history in the organisational life-cycle model and explores how its governance structures evolved while transitioning between the life-cycle stages. It argues that demutualisation was almost inconsequential in affecting the major governance changes within the firm, and argues how, after a change in leadership, the firm reset in 1996 and started a new life-cycle stage and then again entered a new life-cycle stage in 2008 with nationalisation of the bank. Finally, it is shown how corporate governance in each of the two life-cycle phases changed in accordance with strategic and organisational needs. Of particular interest is how, in the process of this change, Bradford & Bingley reinvented itself by changing its business model, thus entering a different life-cycle stage in 1996 and again in 2008. The account is based on an alternative analysis of official documents such as annual reports, press releases, AGM documents, news stories and interviews with top management team members with knowledge of events. In doing so, research question one: *How did Bradford & Bingley adapt its governance structures during the different corporate governance life-cycle stages in the Period 1995 – 2010?* is answered.

The remainder of the chapter is structured as follows. The following Section 5.2 discusses Bradford & Bingley's compliance with UK corporate governance codes between 1995 and 2010. Then, Section 5.3 defines the four distinct periods of Bradford & Bingley's development between 1995 – 2010. Then, each of the periods is discussed separately. Period 1, Section 5.4, addresses governance and strategic changes between 1996 and 2004, that is, during the tenure of Christopher Rodrigues and demutualisation. Period 2, Section 5.5, focuses on the firm's reorganisation between 2004 and 2006, following a strategic review by the new management team. Lastly, Period 3, Section 5.6, briefly discusses the years 2006 to 2008 with Period 4, Section 5.7, dealing with events post-nationalisation. The four periods are followed by a discussion of the governance function of monitoring at Bradford & Bingley in Section 5.8. The governance function of monitoring is discussed in a separate section, as it mainly draws on interviews with directors and thus focuses on contrasting monitoring between Periods 1 and 4. Section 5.9 will then link the findings to existing literature in the field. Finally, Chapter 6 will complement this chapter by focusing on the informal aspects of Bradford & Bingley's governance structures using the upper echelons theory by investigating top management team cohesion and decision-making.

5.2 Bradford & Bingley's compliance with the UK Corporate Governance Code

In Chapter 3, a discussion on the UK corporate governance codes was presented. In showing how Bradford & Bingley complied with these codes, this section presents a discussion on how the codes were adhered to within the relevant period, in particular between the years 1995 and 2010.

Until conversion to plc status in 2000, Bradford & Bingley followed the Building Societies Commission **(**BSC**)** Code of Practice on Governance (BSC Code) which was issued in 1992 and updated in 1998. However, in preparation for demutualisation at the end of 2000, B&B began implementing governance guidance relevant to listed firms, such as the recommendations of the Turnbull Report (1999) regarding systems of internal control. In this regard, the Society began setting up a number of committees to deal with issues of risk and internal control.

Thus, while B&B was not subject to corporate governance codes aimed at listed companies before 2000 **(**see Table B in Appendix, page 226**)**, the Society followed applicable guidance from the Building Societies Commission instead. In particular, the BSC Code (1992, 1998) is an amended version of the relevant UK Corporate Governance Code. Thus the Society was required to report on its governance in its annual reports. For example, in the 1999 Annual Report it is stated that: (a) the board has met at least once a month, (b) the role of the chief executive and chairman is held by different people, (c) there are more non-executive than executive directors on the board, (d) the board reviews its constitution regularly and (e) all directors have access to paid-for, independent, external advice (p. 17).

With demutualisation in December 2000, Bradford & Bingley now had to apply the Combined Code, and at financial year end 2003 (December 31), the bank was fully compliant with the Combined Code (1998). The bank was however not fully compliant with the Combined Code (July 2003), which contained the substance of the Higgs Review, as well as the Smith Review of audit committees, though it adhered to the substance of recommendations regarding board composition, as well as having an audit committee and nominated a senior independent director (SID). Furthermore, with regards to the Tyson Report, Bradford & Bingley judged that *“The five Non-executive Directors bring wide experience from varied backgrounds to the workings of the Board”* (Annual Report 2003, p. 27). Board room diversity, and the directors’ view of diversity, is discussed in more detail in Sections 6.3.2 and 6.4.2.

Thus, with nationalisation and delisting the Combined Code on Corporate Governance no longer applied to Bradford & Bingley. However, in its annual report 2008 the company stated that it intends to continue to follow the code as far as practical. The new governance structure is set out in the ‘Framework Document’ agreed between the company and its sole shareholder, HM Treasury. In following the Combined Code, the bank continued to operate an audit, nominations and remuneration committee, and retained the responsibility for maintaining the system of internal controls. Since 2008, the Framework Document and governance arrangements have been updated in accordance with changing governance best practice. As such a separate Risk committee was set up as a result of the Walker Review (2009). Bradford & Bingley has also continued to separate the role of the chairman and chief executive, and has more non-executive than executive directors on the board. In addition, all principal board committees are fully staffed by non-executive directors and an induction and training program for new directors has been maintained. However, Richard Pym, who previously was chief executive of Bradford & Bingley from August to November 2008 and executive chairman from November 2008 until June 2009, is listed as an independent non-executive director.

5.3 Defining Periods and Events: 1996 – 2010

In this section distinct and identifiable periods are established to facilitate the discussion of the corporate governance life-cycle of Bradford & Bingley. Using Miller

& Friesen's (1984) five stage model, Bradford & Bingley's history between 1995 and 2010 is assessed using available documents and interviews. Establishing events that led to transitions between life-cycle stages facilitates the discussion of the corporate governance changes within and between each stage. Table 5.1 below summarises the break-down of the years 1995 – 2010 into life-cycle stages and sub-periods used in the discussion throughout this chapter.

<table>
<tr><th>Life-Cycle Stage</th><th>Period</th><th>Strategic Theme</th><th>Stakeholders</th><th>Strategic Environment</th></tr>
<tr><td>Stage 3: Maturity</td><td>Before 1995</td><td>Stability</td><td>Current Members
Future Members</td><td>Low Velocity</td></tr>
<tr><td rowspan="6">Stage 4: Revival</td><td colspan="4">Change of CEO</td></tr>
<tr><td><u>Period 1</u>
1995 – 2004</td><td>Commercialisation
Professionalisation
Demutualisation</td><td>Current Members
Future Members
Shareholders</td><td>High Velocity</td></tr>
<tr><td colspan="4">Change of CEO</td></tr>
<tr><td><u>Period 2</u>
2004 – 2006</td><td>Restructuring</td><td>Shareholders</td><td>High Velocity</td></tr>
<tr><td colspan="4">Restructuring Complete</td></tr>
<tr><td><u>Period 3</u>
2006 – 2008</td><td>‘Stability’</td><td>Shareholders</td><td>High Velocity</td></tr>
<tr><td rowspan="2">Stage 5: Decline</td><td colspan="4">Nationalisation</td></tr>
<tr><td><u>Period 4</u>
2008 – ongoing</td><td>Decline</td><td>Taxpayers
UK Banks
Bond Holders</td><td>Low Velocity</td></tr>
</table>

Based on: Miller & Friesen (1984), Filatotchev et al. (2006)

Table 5.1: The 4 Periods of Bradford & Bingley since 1996

As seen in Table 5.1, in 1995 the firm was a steady, slow moving business. Though the firm had already moved away from only selling prime mortgages by engaging in commercial lending to small and medium-sized businesses, at its heart is was still a Northern-based Building Society. At this point in time, Bradford & Bingley was firmly set in Stage 3 of the corporate governance life-cycle. It was a mature business with a substantial asset base and an established strategy.

Period 1

The changing competitive landscape required new skills and, realising that, Geoffrey Lister took early retirement to enable the Society to reposition itself[1]. The choice fell on Christopher Rodrigues to succeed Lister, who had been CEO for 11 years. Thus the year 1995/1996 delineates the crossover from one period to another. Section 5.4 will discuss how Bradford & Bingley evolved during this period and how its governance functions changed.

Periods 2 & 3

The departure of the incumbent CEO in 2004 provided an opportunity for the bank to reassess its position and strategy during the previous eight years. As a consequence of this review, again sweeping changes in strategy and the top management team were implemented, as discussed in Section 5.5 and Section 5.6. These two periods are distinct, even though the same CEO and vision of the firm were in place, in that the during the first period major changes in the strategy and size of the business were implemented, while the second phase saw the bank executing their strategy. As will be argued in this chapter, the first three periods together form the life-cycle stage 'Revival' during which the bank fundamentally transformed itself in an attempt to revive its fortunes and remain competitive in the market place.

Period 4

Finally, external events in 2007/08 led to another watershed moment that would change the face of the company even more dramatically than at any previous time in its long history. Nationalisation in 2008 meant another, even larger reorganisation of the firm and transition into a new stage of its life-cycle. Section 5.6 investigates the corporate governance changes during this period. Thus the transition into a new life-cycle stage is marked by a cataclysmic event, that abruptly ends the revival life-cycle phase, but also has substantially influenced the future direction of the firm.

1 Director Z

5.4 Period 1: Performance Enhancement & Demutualisation 1996 – 2004

This section investigates how Bradford & Bingley's strategy, financial resource needs and board composition changed during the period 1996 – 2004. It does so by discussing, in turn, the three governance functions of strategy, financial and knowledge resource and their interdependencies. Again, the governance function of monitoring is discussed separately in Section 5.8, as its focus is on contrasting monitoring between Periods 1 and 4. Thus, first, this section briefly summarises the state of the society prior to 1996, before exploring how the selection of a new chief executive impacted strategy, and consequently financial resource needs, and finally how the board of directors changed during this period, as a driver and result of strategic and organisational changes.

Prior to 1995 interviewees describe the society as *"cosy"*[2] with an *"autocratic leadership style"*[3] and an emphasis on customer care and care for employees. Although its top management team would primarily consist of *"the good and the great of the area"*[4], though with growth of the national branch network[5] and increasing competition in the 1980s and 1990s this would begin to change. During the late 1980s and early 1990s competition in the market place increased substantially (see Chapter 2 for a brief history of building societies) which prompted the society to hire its first board member with financial expertise in the person of J Lindsay Mackinlay. Lindsay Mackinlay was Director of Finance at Rowntrees plc until 1989 and subsequently joined the board of Bradford & Bingley in 1990 and replaced Donald Hanson as Chairman in 1995.

2 Director D

3 Director A

4 Director D

5 See Figure 2.1 on page 15 for a chart of mergers of Bradford & Bingley Building Society between 1964 – 2000

The Board further realised that, in order to compete, the Society had to become more commercial and professional, that is, to move away from its existing *"cosy"* environment. This sentiment was conveyed strongly in several interviews[6].

In order to study the nature of changes and how they impacted on the governance functions, a closer investigation of these governance functions is necessary. The following paragraphs explore, in further detail, how strategy and resource needs adapted during this period 1996 – 2004.

5.4.1 Strategy

> *"Looking ahead, it is certain that the shape of our industry and the markets in which we operate will continue to change. A small number of building societies may decide to pursue their business in different ways … Bradford & Bingley's position remains firm. Our future is as an independent building society providing the best possible service to all our members."*
>
> *J Lindsay Mackinlay, Annual Report 1995, Chairman's Statement*

Christopher Rodrigues, appointed CEO in 1996, reviewed the existing strategy, products and personnel. In the course of this review it became clear to the Board that, in order to survive, the Society would need to adapt its strategy, that is, to reduce cost and find a market niche which generates good returns at acceptable risk. Furthermore, the existing product portfolio was uncompetitive, as explained by one interviewee[7]. Lastly, personnel had to adapt to the new situation, which led to a reduction in staff count through early retirement and incentive packages. As one Board Member put it: *"25% of the people [are] waiting for the change and feeling liberated, 25% of the people … resisting change and they have to move on because … you and they are not fitting any more and then 50% of people on the fence and they have to be pushed over the fence to come down on the side for change, so getting that going is a real challenge"*[8]. However, changes in staff were not limited to the lower ranks, some

6 Director D, X, Z

7 Director X

8 Director X

members of the senior management and executive also did struggle with the new direction and consequently left the company[9]. The following paragraphs will investigate how Bradford & Bingley's strategy changed between 1996 and 2004 driven by internal and external events.

Strategy as a Building Society

Initially in 1996 when Christopher Rodrigues joined the board as chief executive, he announces that the firm will *"cut cost, simplify processes, upgrade systems, invest in staff, reduce overheads"*[10] over the next years. The year 1997 then saw the first major impact of the new CEO when Mortgage Express was purchased from Lloyds TSB in May for a consideration of £64m[11]. The acquisition pushed the firm into new markets and enabled it to reach a new customer base.

> *"the reason we migrated into Mortgage Express, which had the buy-to-let portfolio, was twofold. Firstly because you could still make money and, although we were a mutual, we have to have a surplus. Secondly because, contrary to what people wrote, for the most part buy-to-let lending is a perfectly manageable risk."*
>
> *Director X*

> *"the strategic thinking was we were never going to be the biggest Lender and therefore we had to be ..., selective, we had to be ... a more important player in certain sections of the overall market"*
>
> *Director Z*

> *"we had quite a lot of branches but we were heavily northern based, Mortgage Express redressed that"*

9 For example, John Wrigglesworth, John Smith; *The chief executive with a taste for the unpredictable*, The Independent, November 1, 2000; Andrew Garfield

10 Annual Report 1996, Chief Executive's Statement

11 Mortgage Express was a lender specialised in the provision of specialist mortgages for the self-employed and buy-to-let landlords.

Director Z

Acquisitions coupled with the set goal of growing Bradford & Bingley by 50 percent over the next four years signals the end of the old Bradford & Bingley Building Society business model. This shift in strategic emphasis is further underlined by the changing description of the company's core business activities over time reflecting the evolution of its strategy. This is clearly set out in the annual reports which evidences the evolution of Bradford & Bingley's business model from *"providing mortgage finance"* (1995, 1999) to *"selective lending on residential & commercial property"* (2000) and "*lending on residential & commercial property*" (2003). Over the course of four years (1999-2003) the firm moved from providing mainly prime residential mortgage products to mainly offering selective residential lending (buy-to-let, self-certified). Finally in 2003, the *'selective'* attribute of its residential and commercial lending is dropped; buy-to-let and self-certified lending are the new normal.

Demutualisation

While the management board was very aware and supportive of the strategic changes required to maintain the competitiveness of the organisation, they were not supportive of demutualisation. As one interviewee put it: *"this is not what I signed up for."* However, board members recognised that the transition to plc status was inevitable as reflected in this quotation:

> *"about a week after the vote to demutualise, one of the big questions was the culture, the whole organisation was defending Mutuality. And we lost. And so we had to get the organisation to turn round, so [we] had to … explain to [staff] that the goalposts were now in the other direction."*

Director X

Further to the external drivers forcing strategic change onto Bradford & Bingley, the indirect impact of external events (pressures) was felt through the changing stance of members on mutuality. In the year 1998 a resolution at the AGM led to members voting in favour of demutualisation. The Board had no choice but accept the members' verdict[12]. Board members had advocated mutuality but *"had to … explain to staff that the goalposts were now in the other direction"*[13]. This added further pressure to accelerate the strategic changes being introduced to the organisation. Bradford & Bingley was set to float on December 4th 2000.

These changes brought into the Society are reflected in the firm's strategy as stated in the Annual Report 2000: *"[a] key part of our strategy is to develop alliances, partnerships and joint ventures"*, for example, distribution agreements with Tesco and Freeserve[14], as well as the outsourcing of mortgage application processing[15] to Alltel. Furthermore, management was also focusing attention to remodel the Society as a plc. More specifically it was introducing *"a more selective approach to lending, effective cost control … and widening interest margins in preparation of paying our first dividend to shareholders."* And *"[everything is in place to evolve] from a mutual manufacturer of lending and savings products into an innovative, growing distributor … of financial services manufactured by many different suppliers."* These statements made in 2000 are fundamentally different from those made in 1996 when the focus was on cutting costs and process improvements.

As the board of directors implemented the strategic change to transform to plc status, they still retained some of the ethos of mutuality, in particular customer focus. One interviewee recounted something a colleague had told him after demutualisation: *"there [is] very little difference between a commercial mutual and a customer oriented public company"*[16]. Furthermore, several interviewees remarked that even though shareholders were the new owners and the firm was now run for their benefit[17], it would

12 Director Z

13 Director X

14 Former UK internet service provider

15 Not to confuse with credit scoring applicants

16 Director X

17 *"The board believes that profitability, the shareholders' ultimate concern, is best served by continuing to satisfy customers' needs. To meet these twin goals we need to deliver sound financial performance and continue the transformation of our business from tied manufacturer to independent retailer of financial services. At the same time, we will continue to focus our Lending & Savings business on delivering profitability rather than market share."* (Annual Report, 2000, p. 5)

be futile to not put customers first. Only a successful firm that satisfies customer needs ultimately serves its shareholders.

Strategy as a plc

The years 2001 – 2003 saw less activity in acquisitions, disposals and joint ventures with the focus moving to consolidating the strategic and operational changes of the preceding years. Statements in the annual reports between 2001 – 2003 clearly show the aims of the bank in this period were to *"become the UK's leading specialist lender and an innovative retailer of property and financial services" (2002)*, to *"continue the transformation of its main mortgage lending business" (2003)*, and to *"replace high margin traditional mortgage lending, ..., with a portfolio of selective secured lending. The margins on selective lending are lower than those achieved on the old building society back book but above margins on new mainstream mortgage lending." (2003)*

In summary, at the beginning of this period in the early 1990s external events pushed the need for change. The board of directors first step to adapt the firm to the changing competitive and regulatory environment was to appoint a chief executive of whom they believed to possess the desired skills. The decisions the board took during the years 1996 – 2003 transformed the company from what was substantially a mortgage and savings business into a financial retailer and specialist lending institution. Demutualisation made the focus on change implementation more pressing while fierce competition in the primary mortgage market made Bradford & Bingley rethink its strategic options.

This discussion, though, reveal another truth about the strategic options of Bradford & Bingley. While its traditional building society book was still generating substantial, albeit diminishing, returns for the bank due to historically higher interest rates, these mortgages were expiring and/or refinanced and consequently profitability was suffering. As illustrated above, the firm moved its primary lending activities to selective lending. The implication of this strategic decision is that the bank needed to replace every £1 of legacy lending with more than £1 of new specialist lending to at least maintain profitability. Thus the announcement in 1997 of an intention to grow the business by 50 percent over the next four years should also be viewed in light of this strategic necessity.

A further implication of this strategic necessity is the impact on the risk profile of the loan book where specialist lending is inherently more risky than prime mortgage lending. In summary, the bank had to replace safe prime mortgages with a high rate of return with less safe specialist mortgages with a lower rate of return.

5.4.2 Resource

This section examines how the resource needs of the firm, driven by strategy, evolved during the period 1996 – 2004. It has been noted that prior to 1996 Bradford & Bingley was a mature, stable business, firmly rooted in its mature phase of the life-cycle. The arrival of the new chief executive resulted in a change of strategy as discussed above. As a result of this strategic repositioning, a new set of resource needs arose with a different profile. In this section the financial resource needs of the firm are discussed first and then the knowledge resource needs are examined.

Finance

In 1996 Bradford & Bingley is Britain's 5th largest Building Society with a substantial asset base and a large number of customers. Its financial resource needs are low as it generates sufficient returns to finance its current business. This section explores how the financial resource needs of the firm have evolved as a result of the strategic changes introduced.

As a Building Society, Bradford & Bingley was required by the Building Societies Act to finance its lending almost exclusively through deposits[18]. This requirement changed with demutualisation, and consequently *Total Loans and Advances to Customers* began to diverge from *Total Customer Deposits*. Furthermore, the ceasing of lending in the prime mortgage market created two opposing forces driving *Total Loans*: (a) the run down of the prime mortgage book and (b) the growth of the specialist mortgage book through Mortgage Express and purchases of third-party originated mortgages. Table 5.2 summarises the financial position of the firm during this period.

18 The limit of non-deposit funding was set to 25% in the 1986 Building Societies Act and subsequently raised to 50% in 1997 (after the majority of societies had demutualised/taken steps to demutualise).

A further influence on *Total Deposits* is demutualisation and the speculation thereof prior to the year 2000. Carpetbaggers invested substantially in Bradford & Bingley prior to demutualisation, and especially prior to the vote to demutualise. The size of the inflow of speculative savings balances was revealed in 2001 after demutualisation, when *Total Deposits* recorded an outflow of almost £1.5bn.

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total Loans	£12,507	£13,753	£16,123	£17,322	£18,450	£19,694	£18,737	£20,506	£24,792
Funding:									
Total Deposits	£11,990	£12,733	£14,155	£16,124	£17,487	£17,584	£16,105	£16,615	£17,171
Debt:	£2,379	£2,934	£2,990	£3,061	£4,021	£4,348	£4,762	£5,768	£10,323
Repayable in:									
<=1 year	£972	£1,053	£935	£1,186	£1,787	£1,546	£1,856	£2,055	£5,021
1-2 years	£156	£148	£575		£478	£685	£555	£1,040	£1,558
2-5 years	£1,025	£1,392	£1,335	£1,836	£1,756	£2,112	£1,621	£2,414	£3,666
>= 5 years	£200	£313	£110			£5	£729	£260	£78
Equity	£110	£110	£110	£110	£110	£174	£174	£174	£174
Reserves	£844	£900	£966	£1,049	£1,144	£1,026	£1,101	£1,087	£1,127
Other Liabilities	£200	£172	£238	£350	£350	£580	£580	£677	£1,122
	Building Society						*plc*		

Notes
*All numbers in £m | *Based on Group Accounts

Table 5.2: Lending & Funding: 1995 – 2003

The increased flexibility in financing its lending after conversion, especially in respect to securitisation and debt gearing is actively exploited by the firm. Thus the years 1996 to 2001 saw a doubling of debt; however deposits increased in line with lending. Then, during the years 2002 and 2003 the resource needs seemingly increased again with another doubling of debt. Further, during 2003 the firm acquired a large portfolio of loans from GMAC for a consideration of £1.4bn and originated loans worth £3.9bn. These transactions were largely financed by £3bn of new short term debt, as well as £1.5bn of medium term debt. However, in its annual reports the firm did not openly speak about the need to attract more funding to grow, though its desire to grow its assets was articulated on several occasions, as discussed above in the Strategy section.

In summary, the years 1996 – 2001 were a period of consolidation rather than expansion. With the abatement of the dotcom crisis the years 2002 and 2003 were marked by a substantial expansion of loan advances to customers financed through short and medium term debt.

Knowledge

Under the corporate governance life-cycle, the resource, strategy, and governance needs of the firm change throughout each life-cycle stage and therefore have to be adjusted from time to time. One implication of this is that it is important to examine board turnover[19]. Therefore this section considers the main structural changes in respect of the board of directors[20].

Two key factors impacting strategy change were examined above; increasing competition, resulting in the commercialisation and professionalisation of the firm after 1996, and demutualisation. These two factors impact on changes on the board of directors, but a third impact factor for non-executive directors needs to be considered: natural turnover through age and tenure.

Non-Executive Board Members

The first driver of board turnover for non-executive directors at Bradford & Bingley is age and tenure, as described by one interviewee:

> *"It was a natural process, as people retired they were replaced with new people who had the appropriate skills that were desired at the time"*
>
> *Director A*

19 Table D.2 in the Appendix (starting at page 248) lists details of all outgoing and incoming board members.

20 It should be noted that in the next chapter the upper echelons theory is used to provide a framework to further consider the experience of the outgoing and incoming board members and its impact on board dynamics

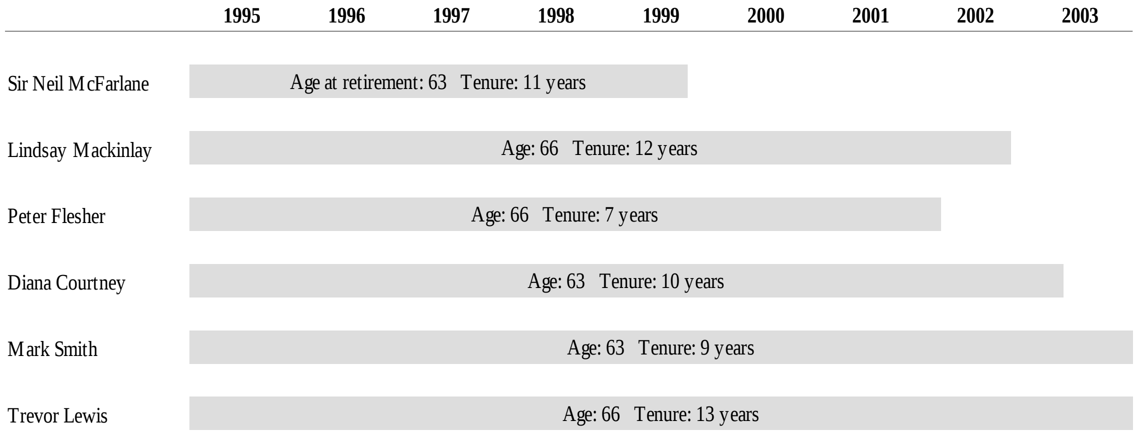

Table 5.3: Departing Non-Executive Directors

Thus in the process of replacing retiring non-executive board members an opportunity arose to hire new members on the board with skills deemed to be required by the firm. Demutualisation, as the second driver of board turnover, has an impact on board structure insofar as the requirements of the board of a plc by the regulator are very different from those of a building society. One interviewee, Director X, expressed this as:

> *"The Building Society Commission ... thought the Board were nice people but they weren't sure they knew enough."*

As the same interviewee continued, demutualisation further enhanced the pressure to adapt the board to a plc environment:

> *"When you become a public company the FSA [Financial Services Authority] says to you ... your Board has to be capable of governing this public Company. We are still your supervisor and regulator but don't expect us to do the difficult stuff."*

In the late 1990s it is striking that the board shifted from being composed of members with experience often in a field outside banking or the traditional building society business to a board with significant experience in finance, accounting, and banking (see D.1, page 251), for example chairman Mackinlay was the first board member to join with significant experience in finance as the former Director of Finance at Rowntrees[21].

On the other hand, board members leaving were predominantly ‘Building Society stalwarts’, non-financial, or *“the good and the great of the area”*[22] such as Peter Flesher (Yorkshire Water, Allied Colloids), Sir Neal McFarlane (former minister and MP), or Geoffrey Lister (worked at Bradford & Bingley since 1963). They were replaced by directors with significant experience in the City, such as Rod Kent (Chairman, Close Brothers), Nicholas Cosh, George Cox (later Director of IoD), Louise Patten (Marks & Spencer, Bain & Co), or Ian Cheshire (Kingfisher).

Executive Board Members

Unlike for non-executive directors, where turnover was concentrated in the years 2002 and 2003 after the transition to plc status, turnover of executive directors happened throughout the years. Christopher Rodrigues engineered board turnover to introduce executive board members with financial, strategic, and operational expertise to support the new strategy[23]. This saw the likes of Rosemary Thorne (Head of Retail Finance, Sainsburys) or Keith Greenough (NatWest, Lloyds and Mortgage Express) join the executive team.

As one interviewee put it:

> *“[Christopher Rodrigues] certainly didn’t surround himself with yes men but he surrounded himself with people who he could trust and had either worked with or knew of who could ... help his vision of developing the business”.*
>
> *Director Z*

During the early 2000s more changes could be witnessed. Steven Crawshaw, who had been with Bradford & Bingley for a number of years, initially as Flotation Director,

21 Director Z

22 Director D

23 Director Z

prior to which he worked for Lloyds TSB, joined the board as director. There was a clear switch from a mix of occupational backgrounds to one that was heavily focused on finance, investment banking, and financial services in general, which aligned with the strategic repositioning of the bank.

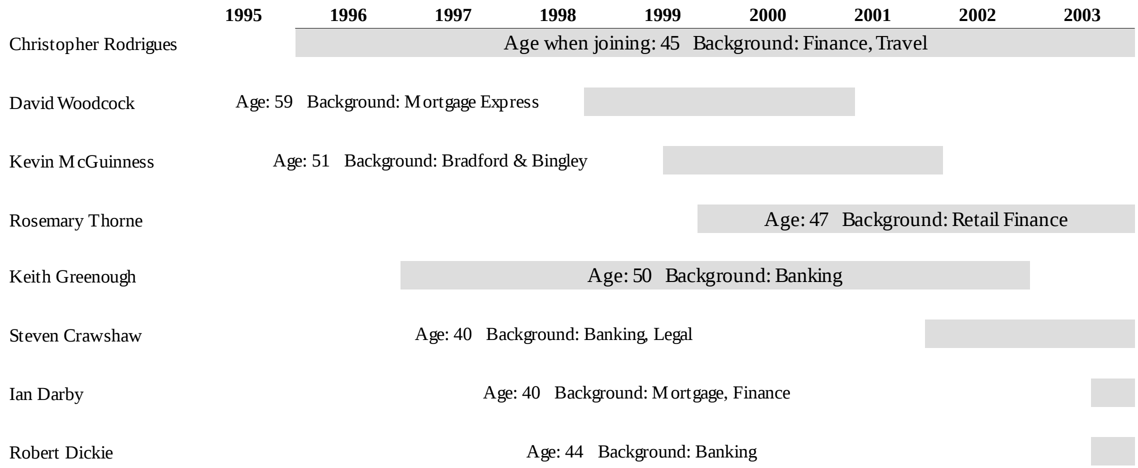

Table 5.4: Incoming Executive Directors

In conclusion, a number of drivers existed that shaped the composition of the board. These can be divided into internal and external factors[24]. Internally, two factors were most relevant: age and occupational experience. The natural turnover process allowed for the recruitment of new non-executive board members with the skills and experience deemed necessary to move the firm forward. This process was driven by the chairman and his vision. However, it also implied a time lag between the point in time when a need to change is identified and the point when this need could be acted upon. (Lynall et al., 2003)

The impact of board changes on strategy and resource in this period supports Golden & Zajac (2001) who find that the board’s attention to strategy and its inclination for strategic change is positively related to the success of this change. The board's inclination for change and its attention to strategy in the case of Bradford & Bingley is manifested in its decision to hire Christopher Rodrigues for strategic reasons and increasing profitability (Table 5.6, page 105).

24 Based on Tichy (1980, p.169), in (Kimberly & Miles, 1980)

5.4.3 Summary

The importance of resource, especially knowledge resource (in the form of directors' skills and knowledge), during this period has been explored in this section. The firm focused on operational improvements and product development, subsequently introducing new products and business lines. By establishing a competitive advantage in specialist lending through these new products B&B successfully operated in a niche of the competitive UK mortgage market.

The strategic change in the form of focusing on a particular section of the mortgage market is linked to the elevation of Lindsay Mackinlay to Chairman as well as the subsequent shift in agreement amongst board members that a new strategic direction is necessary in order for the Society to continue trading successfully. The agreement then opened the door for the hiring of Christopher Rodrigues, a business outsider, as CEO. Subsequently new executive and non-executive board members were recruited to adapt the top management team to the needs of the firm. The point of transition from the life-cycle stage of Maturity to Revival is thus the introduction of a new CEO, which can not be underestimated due to its impact on the firm's future.

Again the years 1996 – 2001 are seen as a period of consolidation and organisational change by directors rather than expansion. In contrast, the years 2001 – 2003 saw Bradford & Bingley benefiting from this period of consolidation through their aggressive expansion of their lending activities.

Based on the evidence presented in the sections above, it is reasonable to conclude that the foundations of the revival of the firm were laid through a change in the knowledge resource, with knowledge resource being argued to be the primary driver in the interplay of the governance functions of strategy, resource, and monitoring in the organisational life-cycle. Hence this period accords with the Revival stage as strategy and resource are highly important during this period. While knowledge resource is relatively more important in the beginning of the period, finance resource gains in importance towards the end. In terms of the relative importance of the three governance functions this period is similar to Quadrant 1 of the four stage corporate governance life-cycle model presented by Filatotchev et al. (2006). However, it also differs in that Bradford & Bingley is a mature firm with a substantial asset base, brand name and large network of branches, not a start-up. It also necessarily differs in terms of the importance of monitoring due to being a financial institution, which is discussed in Section 5.8.

5.5 Period 2: Strategic Renewal 2004 – 2005

This section discusses how Strategy and Resources changed in the period 2004 to 2005. This period, although relatively short, is very significant for the future development of the business, in that after Steven Crawshaw succeeded Christopher Rodrigues to become CEO, his first initiative upon succession was to begin a full strategic review of the Group. Subsequently, the results of this strategic review, published in May 2004, determined the reorganisation of the firm over the ensuing 18 months.

5.5.1 Strategy

The period 2004 – 2005, as stated in the introduction, is very important as it is during this time that Bradford & Bingley fully transforms its operations into its final form, prior to nationalisation. In March 2004, Christopher Rodrigues resigns as CEO of the bank. Steven Crawshaw is then appointed as his successor with effect from March 31st. In the press release announcing the change of board composition Steven Crawshaw is quoted as saying:

> *"I am clear about our priorities in both the short and medium term and I am confident in our strategy. My immediate emphasis is to continue to achieve our growth objectives whilst improving our operational efficiency."*
>
> *Bradford & Bingley Press Release, 02/03/2004*

However, he immediately instigated a strategic review of all operations which concluded in May 2004, when the Board decided, as an overarching aim, to simplify the business. To achieve this it would:

- Dispose of five non-core businesses
- Continue the emphasis on specialist lending
- Cut cost in the core business, and

- Refocus and simplify its retail business.

In order to achieve this aim, all non-core businesses were disposed of, that is, property and independent financial advice, which employed approximately half of Bradford & Bingley's workforce. These lines of business, in the eyes of the board, had a high cost gearing, high earnings volatility, insufficient scalability, insufficient synergy with the rest of the Group, as well as consuming management time in excess of its profit contribution[25].

Again, in implementing this strategic review, there was a refocus and simplification of the retail business. This not only involved the reorganisation of branch management structures, simplification of the sales process, and performance management of low productivity advisers, but also saw the end to independent financial advice (2004), insurance broking (2004), and mortgage broking (2006). An agreement was also reached with Legal & General at the end of 2004 to sell insurance products through Bradford & Bingley branches[26]. In effect, the firm continued to put more emphasis on the performance of its core lending business at the expense of other business units, which were disposed of.

Consequently, at the conclusion of the reorganisation 18 months on, the chief executive concluded that

> *"we went through substantial change and saw many challenges … the actions we undertook to simplify and reinvigorate Bradford & Bingley [were successful]. We have become a stronger, healthier organisation and have driven profit growth off that improved platform."*
>
> *Annual Report 2005, Group Chief Executive's Review, p. 6*

Indeed, this language of simplicity, health, strength, and reinvigoration can be found in many documents and publications published by the bank during this time period (for example, Preliminary Results 2005, Pre-Close Briefing June 22, 2006, Annual Report

25 Bradford & Bingley Annual Report 2004, p.4

26 Bradford & Bingley Press Release, 01/11/2004

2006). It further creates the impression that the firm was considered to be sick, slow, and unhealthy prior to the appointment of Steven Crawshaw. The parallels to the description of the firm found at the beginning of the previous period, that is, being cosy as well as in need of professionalisation and commercialisation, are striking (for example, page 83)

5.5.2 Resource

The resource function is discussed next, focusing on the financial aspects and on the changes on the board of directors and their impact on the future direction of the firm.

Finance

Funding The board sought to change the funding mix of the firm, alongside the operational changes, ostensibly to *"significantly enhance our ability to source funding from new and highly liquid financial markets"*[27] in effect to balance the funding needs between wholesale, retail and secured funding. This deliberate move to broaden the sources of funding away from wholesale debt, however reduced the spreads the bank was generating. The reduction in spreads was due to the higher cost of retail and secured funding, as compared to wholesale. The relatively stable debt levels shown in Table 5.5 below underline this argument.

Prior to demutualisation, retail deposits were the main source of finance, while debt became increasingly more important after conversion to plc status[28]. Thus, to enter the secured funding market, the firm set up a securitisation master trust with a £9 billion pool of mortgages as well as establishing a €2 billion covered Eurobond program. However, the emphasis on securing retail funding was also strengthened. Nevertheless the focus seemed to have shifted from wholesale and retail funding to funding through securitised, covered bond and wholesale markets *"with an important contribution from Savings"* [29]. Therefore it is reasonable to state that these changes in funding, together

27 Annual Report 2004, Chairman's Statement, p. 2

28 See also Table 5.2: Lending & Funding: 1995 – 2003, page 90

29 Annual Report 2005, Chairman's Statement, p. 5

with the strategic changes discussed above, imply that strong asset growth is highly desired in the future.

	2003	2004	2005
Total Loans	£25,855	£28,868	£31,127
Funding:			
Total Deposits	£17,171	£18,954	£21,050
Debt:	£11,359	£14,939	£14,578
Repayable in:			
<=1 year	£5,412	£5,629	£4,492
1-2 years	£1,724	£2,398	£2,203
2-5 years	£4,104	£6,314	£4,898
>= 5 years	£119	£598	£2,985
Equity	£174	£187	£211
Reserves	£1,127	£1,010	£1,130
Other Liabilities	£1,122	£1,123	£1,165

Notes

*All numbers in £m | *Based on Group Accounts

* To enable comparability of results between 2003 and 2004 Loans and Debt in 2003 have been adjusted to include Loans and Advances to Customers subject to non-recourse funding and Non-recourse funding respectively. Furthermore the breakdown of recourse funding by maturity has been estimated.

Table 5.5: Lending & Funding: 2003 – 2005

Lending Bradford & Bingley considerably expanded its lending activities during the period 2004 – 2005 growing loans by 20 per cent. (Table 5.5) Lending primarily focused on buy-to-let and self-certified mortgages, however purchasing third party mortgages played an increasingly significant part in expanding loan balances. In effect, over the course of the two years, Bradford & Bingley took £2.5 billion of third party mortgages on its books, constituting almost half of the increase in lending balances[30].

Arrears The mortgage market, during this period, was not stable as increases in the Bank of England interest rates, led to a partially difficult 2004 and first half of 2005. However, in spite of these unfavourable conditions, the bank claimed to have maintained its margins and credit quality. This claim was also made in spite of an increasing level of arrears. Arrears in the buy-to-let book, had increased from 0.25% in 2003 to 1.06% in 2005, while the firm's total loan book exhibited a similar trend,

30 For a summary of acquired third party mortgages see Table D.1, Appendix, page 242

increasing arrears from 0.47% to 1.19%, with management stressing that the upward trend was within its expectations.

Consequently, the bank remained confident in the health of its chosen markets (buy-to-let, self-certified) and was looking to outperform the general market against a backdrop of record levels of employment in 2004 and rising interest rates. It justified its confidence by citing the structure of the mortgage market and, in particular, the still high demand and low stock of available housing as reasons to be:

> *"confident that our arrears and bad debts will remain low as a direct result of our conservative underwriting process and lending policies ensuring that the quality of our loan books is maintained."*
>
> *Bradford & Bingley Annual Report 2005, Chief Executive's Review, p. 7*

In summary, despite the increase in arrears and the first signs that the economy had hit its peak, the bank nevertheless continued lending aggressively, albeit at a lower rate than 2003, and was very active in securing funding. At the same time management pressed ahead with the simplification of the business model with a single focus on specialist lending, that is, a higher risk strategy that promises better returns. In addition, it increased its efforts to attract more retail funding and took on debt in 2004. However, the first warning signs of what the future hold become apparent at this stage. According to Mellahi (2005) organisational failure is a process involving four stages where the eventual causes of failure are not apparent at their conception stage, but become more so over time. Thus, management's reaction to the quadrupling of arrears in the buy-to-let loan book could be interpreted in this light as an ignorance, or underestimation of, of initial warning signs of possible problems ahead.

Knowledge

During the period 2004 – 2005 there were three outgoing and two incoming directors. Without a doubt the most important change was the resignation of Christopher Rodrigues who left in order to become President and Chief Executive of Visa International. The departure of the incumbent CEO was unexpected at the time and Bradford & Bingley reportedly could not match the salary offered by Visa[31]. However, the firm had succession plans in place[32] and promoted Steven Crawshaw to CEO.

Crawshaw's knowledge of the bank and successful running of the Lending and Savings Division (2003 – 2004) gave him a full overview of all aspects of the business. Prior to being responsible for Lending and Savings, Crawshaw held positions as Flotation Director (1999), as well as Director of Strategy, HR, and IT (2000 – 2002). Especially as Director of Strategy, he exerted influence and was instrumental in shaping the current strategy of the firm. On his appointment he stated:

> *"This is very much a message of business as usual. The strategy emerged as part of the flotation process and I have been working alongside Christopher Rodrigues on that."* [33]

> *"I am beginning at a time when a lot of regulatory fog is beginning to lift, that is the time when you can accelerate the strategy rather than continue to struggle with it."* [34]

Interviewees described Steven Crawshaw as a "*nice guy*" and *"well liked"* and as a "*natural choice"*[35] as successor to Christopher Rodrigues. However, it was also said that he was not too fond of the retail-side of the business, something he had in common with Chairman Rod Kent[36]. While his statements announcing an acceleration of strategy can be understood as an increased emphasis on growth of lending, which will be witnessed between 2006 and 2008, the departure from the previous strategy of being a

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31 *Bradford & Bingley chief gains US visa; Rodrigues has a nice day after being poached on huge salary*, The Herald, March 3, 2004, p. 25, Karl West

32 *Visa swipes Bradford & Bingley chief for the top job*, The Guardian, March 3, 2004, p. 18, Heather Tomlinson

33 *Rodrigues quits B&B for Visa's golden gate 'Humongous' pay deal lures Bradford chief to head credit card network*, The Daily Telegraph, March 3, 2004, p. 38, Andrew Cave

34 *Visa swipes Bradford & Bingley chief for the top job*, The Guardian, March 3, 2004, p. 18, Heather Tomlinson

35 Director X

36 Director X

financial retailer, in spite of public comments to the contrary, indicates that Crawshaw was looking to pursue his own vision of the firm.

Additionally, during the period 2004 – 2005, two other senior executive directors, Ian Darby (Marketing – 2004) and Rosemary Thorne (Finance – 2005), left the board. Both are said to have had an appetite for the top job themselves and were in contention, but ultimately not successful[37].

Thorne, the last board member remaining from the pre-demutualisation era, left the firm in 2005 to be replaced by Christopher Willford. While her failure to have been chosen for the top job may have played a part in her leaving the business, other factors most likely contributed, especially the changing strategy of the firm. Specifically, Thorne's background in retail finance with Sainsbury's is not as relevant any longer with a shift to becoming a specialist lender without other retail operations. In interviews, it was suggested that her conservative attitude, especially towards the treasury division, may not have been in favour with other decision makers on the board. As one interviewee put it: *"Rosemary was pretty tough on what she would let the Treasury people do. I think Treasury got a bit more excited after … she left"*[38]. Also, Christopher Willford, her successor, had previously worked at Abbey National and Barclays and thus had a background in commercial banking and finance.

These departures are insofar significant, as they signal the end of the strategy of being a financial retailer. Both executives were supporters of Rodrigues and his strategy. Furthermore, they were instrumental in shaping and executing the retail strategy of the firm. As already mentioned in Period 1 (page 87), a Chief Executive seeks to surround himself with executives who share and support his vision, and Crawshaw's vision and strategy of the firm were fundamentally different from his predecessor.

37 *It's California here I come as Rodrigues hangs up bowler,* Daily Mail, March 3, 2004, p. 83, Ruth Sunderland

38 Director X

5.5.3 Summary

Section 2 reviewed the changes to the governance functions of Bradford & Bingley for the years 2004 – 2005, which were marked by a strategic reorientation after the change of its chief executive. As discussed, the multi-level nature of changes on the board, as well as the role of the CEO and Chairman, support the conclusions of Period 1, 1996 – 2004, that Bradford & Bingley are in the Revival stage of the corporate governance life-cycle, signified by a high importance of strategy, continuing financial resource needs and high profile changes on the board.

However, the lack of substantial interview data for this period creates difficulty in assessing the internal changes and discussions that took place. For example, who was the driver of the new strategy and who opposed it? How did the competition for the CEO post affect board climate? Anecdotal evidence from interviews suggests that Steven Crawshaw and Rod Kent were looking to streamline the business and focus on specialist mortgage lending, not retail finance. As these changes were introduced shortly after the incumbent CEO left, it then raises questions as to whether there were underlying tensions on the board about the strategic direction prior to his departure. Thus, does it then imply that Rodrigues was a very dominant figure? Again, available interview data does not support this, although there might be a variety of reasons as to why, for example interviewees not willing to admit this as it would show a form of weakness on their part. Similarly, a battle for succession would seriously destabilise the board, especially if senior executives such as the Finance Director are applying for the position of CEO, but are in the end are left out in favour of a more junior executive director. Nevertheless, the changes that occurred during this period laid the ground for Period 3, 2006 – 2008, which is discussed in the next section.

5.6 Period 3: The Final Years 2006 – 2008

The period 2006 – 2008 marks Bradford & Bingley's final years as an independent bank, that is, after finalisation of its restructuring. As with the previous section, the majority of the discussion is based on official company publications and news reports. The main objective of this section is thus to illustrate the events preceding nationalisation, in particular, how the strategy of the firm affected its performance and how its management was unable to act in response to the developing financial situation.

5.6.1 Strategy

Bradford & Bingley's best ever year in terms of profits before taxation was 2005 as can be seen in Table 5.7. Since then its ability to convert asset growth into profit steadily diminished. The bank's business model during this and the previous period was built on growing its market share in a selected number of specialist mortgage markets, a direction that was chosen and pursued aggressively as an outcome of the strategic review undertaken in March/April 2004 and announced in May 2004[39 40]. As previously discussed, the strategic review led to a reorganisation and refocusing of the business with 2006 being the first full fiscal year as a restructured organisation.

1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
£128.5	£154.7	£154.5	£237.1	£243.2	£257.1	£228.5	£263.5	£246.7	£126	£134.3
Building Society			PLC							Nationalised

Table 5.6: Operating Profits 1998 – 2008

The period 2006 until nationalisation in 2008, was when the firm executed the new strategy. During this period the firm described itself for the first time as "*a UK based financial services business, focused on providing specialist mortgages and savings products*" (D.2, Appendix, page 251) whilst acknowledging its transformation from its building society roots. With the completion of its transformation the bank underwent no

39 New B&B chief looks for savings The Guardian (London), April 28, 2004, City; Pg. 16, 329 words, Heather Tomlinson

40 Bradford & Bingley conference call Fair Disclosure Wire, May 19, 2004, Transcript; 6679 words

further strategic changes, for example, entering new markets or acquiring or disposing of business units, during the years 2006 to 2008. Thus the primary areas of decision-making for management therefore were lending strategy, discussed below, and funding, discussed in the subsequent Finance Section.

Lending Strategy

After a relative slowdown of asset growth in 2004 and 2005, mortgage lending accelerated until mid-2007, reaching a peak growth rate of 20.2 percent before slowing down again in the latter part of the year, due to the impact of the financial crisis (see Table 5.7 below for annual growth rates). Steven Crawshaw, the CEO, commented at the publication of interim results:

> *"Bradford & Bingley has delivered another strong performance in the first half and … we've grown profits by 10%. We've achieved record levels of lending and solid savings growth. Our pipeline of new business is at all-time high levels … The drivers of the specialist markets and credit quality remain robust. We continue to be comfortable with the market's expectations of underlying profit for the full year."*
>
> *Steven Crawshaw, July 26, 2007*

At this point in time the firm firmly believed in continuing its growth through its traditional channels, that is, selling mortgages through its branch network, telephone and internet, as well as by continuing to purchase mortgage portfolios from GMAC-RFC and Kensington Group. In this context a closer look at the net advances (gross mortgages less redemptions, Table 5.7) adds further detail to the strategic moves the bank was undertaking in the run up to nationalisation.

In 2006 mortgage redemptions in the standard portfolio exceeded new mortgages by £730 million. However, in 2007, especially during the second half of the year, the firm moves back into originating more standard mortgages (as opposed to specialist mortgages), which is underlined by management comments relating to de-risking the business[41]. At the same time the origination of self-certified mortgages is reduced, while buy-to-let mortgages are experiencing stable growth throughout 2006 and 2007. Though less than in previous periods, Bradford & Bingley nevertheless added £2 billion of mortgages in the second half of 2007 alone, at a time when the subprime mortgage crisis was already well under way[42].

In £bn	2005	2006	2007	2008 Interim
Total mortgage assets	31.1	36.1	40.4	42.2
12 month Change	7.45%	16.08%	11.94%	4.03%
Organic	1.3	2.6	4.1	1.7
+ Acquired	1.4	2.5	4.2	0.2
Net advances	2.7	5.1	8.3	1.9
+ Redemptions	4.5	5.2	5.8	2.5
Gross Advances	7.2	10.3	14	4.4

Note

* Table based on Interim Financial Statements

Table 5.7: Asset Growth 2005 – June 2008

At the beginning of 2008 we can observe a further slowdown in the origination of mortgages as underlined by management comments made in April and May that *"business levels [are] lower than last year … but in line with our plan"* and that "*supply has clearly become more constrained"* [43]. Arrears were however reported to have continued to rise[44], albeit *"within expectations"*; while strong growth of £1.9 billion in savings deposits had provided fresh capital to the bank and reduced the need for a capital injection. For the time being, there were no fundamental questions regarding the bank's strategy or position. One analyst even commented: *"As the mist clears over the balance sheet, we do expect focus to return to the underlying business, where the picture is resilient"* (James Eden, Exane BNP Paribas)[45].

41 Preliminary 2007 Bradford & Bingley plc earnings presentation Fair Disclosure Wire, February 13, 2008; 13404 words

42 The financial crisis: a timeline of events and policy action Federal Reserve Bank of St Louis, 2009; url: http://timeline.stlouisfed.org/pdf/CrisisTimeline.pdf (accessed: 08/03/13)

43 Interim Management Statement, April 22, 2008

44 B&B says funding is secure despite rise in bad debt The Independent (London), April 23, 2008, Business; Pg. 36, 535 words, Sean Farrell (Financial Editor)

45 *Bradford & Bingley: We are not in financial trouble, lender tells shareholders* The Guardian (London), April 23, 2008, Financial Pages; Pg. 22, 496 words, David Teather & Graeme Wearden

Continuing with the theme of lending, purchases of acquired mortgage books were significantly scaled up during 2007 (Table 5.7). Standard and other specialist mortgages as well as self-certified mortgages were predominantly added in the first half of 2007, whereas buy-to-let mortgages were mostly acquired in the latter half of 2007. This is insofar interesting as it shows that the bank considered these mortgages to be of lower risk than self-certified, as underlined by management comments and the quarterly buy-to-let confidence studies[46]. It is evident that the bank's management was slow to react to the slowdown of the economy and stress in the financial system. Additionally, they only attempted to reverse the lending strategy in 2008, long after Northern Rock's failure, only changing strategy after arrears levels became alarming in May 2008[47].

Moreover, doubts regarding the viability of the bank's lending strategy had been raised ever since the bank started investing in buy-to-let mortgages[48]. Management continued to pursue this strategy though, believing in the underlying quality of their lending and acquired third party mortgages, as well as continuing market opportunities in the buy-to-let market. The bank continued following their strategy even at the end of 2007 and early 2008 despite the turmoil in world financial markets.

5.6.2 Resource

Finance

The financial situation of the firm started deteriorating in earnest in the second half of 2007, but the seeds were sown much earlier. At the core of Bradford & Bingley's problems were investments into treasury and mortgage assets that were made since 2002[49].

In terms of income and profitability the financial results (Table 5.8 below) reflect how the new strategy was a positive driver of income in 2006 and part of 2007. Net

46 For example, Myths about the Buy-to-let market, Bradford & Bingley, February 2007

47 *The six days that almost broke the bank* The Sunday Times, June 8, 2008, Business; p. 11, John Waples

48 See for example, *Notebook: B&B boss goes west, but what does he leave behind?* The Guardian, March 3, 2004, p. 19

49 See Table D.1: Third Party Mortgage Transactions, page 242

interest income kept increasing until the end of 2007, partially driven by increases in interest rates and partially by still increasing volumes of lending. However, reduced net interest income is reported in the Interim Financial Statement 2008, which, despite an increase in mortgage assets of £1.6 billion, strongly points at difficulties in collecting on the mortgage advances made. This is further underlined by the substantial increase of loan impairment losses from £5.3 million in June 2007, to £22.5 million at the end of 2007 and £74.6 million by half-year 2008.

In £m	**2005**	**2006**	**2007**	**2008 Interim**
Net interest Income	469.3	510.2	547.7	246.7
Profit before taxation	263.5	246.7	126	-26.7

Table 5.8: Net Interest Income and Profit before Tax 2005 – June 2008

Arrears Arrears had been steadily increasing as a proportion of total lending as of 2004 (Table D.4, Appendix, page 250), largely due to successive interest rate rises and an economic slowdown in the middle of the last decade[50]. The rapid asset growth experienced by the bank at the end of 2006 and early 2007 resulted in a 15.5 percent increase of arrears in the six months to June 2007. Bradford & Bingley presented the increase of arrears to be *"expected and reflects the increase in the cost of borrowing [by the Bank of England]"*[51].

Consequently during the first half of 2008, arrears cases increased by 57% representing 2.87% of outstanding loan assets. A more dramatic picture emerges when comparing organic (Panel A, Table D.3, Appendix, page 249) and acquired mortgages (Panel B). As is presented in Table D.3, arrears in the organic mortgage book doubled between mid-2007 and mid-2008. The best performers here were 'standard and other specialist mortgages', while 'buy-to-let', which represented the bulk of outstanding lending, was a close runner up as the value of arrears almost doubled from 1.02% to 1.99%. However, 'self-certified mortgages' were by far the worst performer, increasing from an already high level of 2.41% in June 2007 to over 3% of outstanding mortgages by June 2008.

50 The Bank of England increased interest rates in 2006 and 2007 from 4.5% to 5.75%.

51 Bradford & Bingley Annual Report 2007, Director's Report, page 13

Again, while the numbers reported in the organic loan book were poor, their performance was much better than the mortgages acquired through forward sales agreements, even though management always maintained that acquired mortgages were carefully screened and adhered to the same underwriting standards as organic mortgages[52]. Yet arrears for buy-to-let loans shot up from 1.64% to 5.06% and self-certified loans increased from a high 3.02% to 5.16% between June 2007 and 2008. Other mortgages performed even worse, shooting up from 3.32% to 7.07% (Panel B, Table D.3, Appendix, page 249).

In short, the full scale of the quality of lending only became apparent after nationalisation when Bradford & Bingley incurred loan impairment losses of over £1.2 billion between 2008 and 2010. Arrears levels also rose into the double digits (Panel B, Table D.3, Appendix, page 249). Indeed interviewees with knowledge of the financial and operational situation of the firm stated that the strategic focus was on sales and volume, with credit quality secondary.

> *...what seemed to have happened is [that] before government ownership [the focus] was on sales...*
>
> *Director Y*

Funding Even though the bank had always claimed to be fully funded into 2009, doubts about its funding position had existed since 2007 with the trend of increasing arrears. Especially the bank's decision to sell its commercial loan and housing association book at loss[53] [54] raised questions about its liquidity and capital position[55]. Though these were strongly denied by the bank, the fact that the two loan books, which

52 Interim Report 2007 (p.5): *"Loans acquired via the forward sales agreements [from GMAC-RFC and Kensington Mortgage Group Ltd] are similar in profitability and credit quality to those we originate through our own channels."*

53 Bradford & Bingley moves to allay fears Yorkshire Post, November 29, 2007, 243 words

54 4.2bn loan sale boosts B&B funds Bradford Telegraph and Argus, November 21, 2007, Business, 343 words, Mark Casci

55 *Paragon and B&B tackle the damage* Evening Standard (London), November 20, 2007, B; Pg. 29, 504 words, Nick Goodway, Hugo Duncan

were amongst the bank’s best books, were sold at a book loss strongly pointed at the need for liquidity[56].

Two factors contributed to B&B's funding problems. First, wholesale and securitisation markets remained closed for all banks and very few transactions were actually completed. The second factor was arrears levels which increased sharply in the first quarter of 2008[57]. Additionally, during mid-2008 the inadequacy of Bradford & Bingley's management information systems was exposed when the Chairman Kent admitted that management was not aware of a change of the trading climate until one month after the end of the quarter[58]. One report[59] even insinuated that management information systems hadn't been updated since the days of demutualisation in 2000, though this was not supported by interviewees who insisted that management information had always been timely during their tenure.

> *“... we had sufficient management information of the quality to give us up-to-date information on where our P&L [Profit and Loss] was, where our default rates were … by the time it got to Board meetings ... that information was there. I can never remember a time when they said ... ‘we don't know what's going on here’.”*
>
> *Director D*

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56 Bradford & Bingley sells mortgage books for 4.2 billion Citywire, November 20, 2007, 363 words

57 Interim Report 2008 (p.4-5):
“Arrears have continued to increase as expected reflecting tough economic conditions, and we anticipate this trend will continue throughout the second half.”
“The credit impairment charge for the first half of the year was £74.6m (1H 2007: £5.3m). [...] £18m relates to a number of organised mortgage frauds.”

58 Kent said: *“These facts did not show in the January or February accounts, and had scarcely showed in the March figures, but by April it was far more pronounced. But we didn’t see these accounts until the end of May.”*

The new figures showed the bank had stumbled into an 8m loss for the first four months of the year, compared with a 108m profit for the previous year.

The six days that almost broke the bank The Sunday Times, June 8, 2008, Business; Pg. 11, John Waples

59 Why the floating building societies’ shares went down: The wise pocketed their windfalls. But most of those account holders who held on to their free shares have lost out The Observer (London), June 8, 2008, Business; Pg. 4, 776 words, Heather Connon

However, that management information systems were not fully adequate at this point in time, is documented by Rod Kent explaining in an investor call that:

> *"I will commit … to improve our management game, particularly in the area of management information and the speed of financial information in the whole area of our communications.*
>
> *B&B is an organisation used to a less dynamic environment in the past … I see it as my job to bring a greater dose of realism and a real sense of urgency to this company."*
>
> *Rod Kent, Investor Call, 02.06.2008, pp 1-2*

Again, information regarding an imminent rights issue was published in the Sunday Telegraph on April 13, 2008, stating that the bank had asked Citigroup for support in raising capital, though no formal decision had been taken by the board at that time[60]. In response to the revelation, management released a statement the following day denying any imminent rights issue:

> *"Contrary to press speculation, Bradford & Bingley announces that it is not intending to issue equity capital by way of a rights issue or otherwise. Bradford & Bingley has a strong capital base … and as a result of the Board's conservative approach, has funded its business activities through 2008 and into 2009. In the current market environment, the Board will naturally continue to monitor closely the balance sheet strength of the business and its funding plans."*
>
> *(Press Release, 14/04/2008, Statement re. Press Comment)*

However, a month after the rumours were originally published, the bank announced a £300 million rights issue, in order to *"strengthen the Group's capital position and … mitigate the impact of the previously announced reductions in the value of certain of the*

60 *Brown orders crucial bank summit downing street meeting comes as Bradford & Bingley, UK's biggest buy-to-let lender, plots emergency rights issue to boost ailing balance sheet T*he Sunday Telegraph (London), April 13, 2008 Sunday, City; pg. 1, 668 words, Mark Kleinman and Louise Armitstead, additional reporting by James Hall and Helen Powe

Group's treasury investments"[61], an admission by management that the firm was in more difficulties than admitted so far and that the denial of any imminent rights issue was not truthful[62 63 64]. Consequently newspapers increased their criticism of *"Bradford & Bungle"*[65], with The Telegraph and The Times being especially vicious after first breaking the news on the rights issue in April, running eight separate stories in eight days, including analyst comments such as:

> *"… the real reason for B&B's rights issue is because its bad debts have increased and are set to get worse. … B&B … refused to give earnings guidance for this year or next, … it believes its outlook is bleak.*[66]

> *"It has been suggested to us that the B&B chief executive is 'out of his depth' and we wouldn't disagree."* [67]

At this point events took a turn for the worse. Following the £300 million rights issue announced on May 14 priced at 82p per share, the share price approached 82p at the end of May, before shareholders were scheduled to vote on the proposal. The rights issue was thus postponed to be restructured. At the same time as the rights issue was suspended, Crawshaw resigned as Chief Executive due to ill health[68 69]. Then a deal to sell a 23 percent stake of the bank to TPG Investments was announced on June 2 after a

61 *Proposed 300m rights* issue, Bradford & Bingley Press Release, 14/05/2008

62 Bradford & Bingley in 300m cash call to shareholders Yorkshire Post, May 14, 2008, 383 words

63 Bradford and Bingley forced to ask shareholders for 300m Yorkshire Evening Post, May 14, 2008, 381 words

64 Bradford & Bingley under fire over rights issue The Guardian, May 14, 2008, 546 words

65 Viewpoint: An absurd tale from Bradford & Bungle The Guardian (London), May 15, 2008, Guardian Financial Pages; Pg. 29, 780 words, Nils Pratley

66 *Crawshaw has nowhere left to U-turn The B&B chief is under pressure to stand down over his rights issue U-turn and his failure to diversify the bank's mortgage book* The Sunday Telegraph (London), May 18, 2008, City; Pg. 6, 1033 words, Kathrine Griffiths

67 Crawshaw steers B&B into rights issue u-turn, Bank jumps on cash call bandwagon with greatly discounted offering after denying plans to do so Daily Telegraph, May 15, 2008, City; Pg. 5, 1103 words, Helen Power

68 Bradford & Bingley Press Release, 02/06/2014

69 *Crawshaw's departure leads to reshuffle*, Financial Adviser, June 5, 2008

weekend of frantic negotiations[70]. The deal included a revised rights issue priced at 55p per share in addition to a £279 million investment by TPG. However, yet again the deal did not finalise as Bradford & Bingley's debt rating was downgraded by Moody's ratings agency on July 3rd, activating escape clauses for TPG. This second failed rights issue seriously damaged the reputation of the bank and its management[71] [72].

A third attempt to raise capital was announced on July 4 when the bank's largest shareholders as well as other major UK banks agree to support a rights issue. The new rights issue, valued at 55p a share, was enlarged to £400 million to compensate for the withdrawal of TPG. The rights issue was finally approved on July 17, 2008. As a further sign of mistrust of the firm's management, it emerged that the rights issue was subscribed by only 28 percent of shareholders[73], due to UK banks taking up their agreed share, and that the remainder was left with the underwriters[74] [75]. Retail investors did not subscribe to the share offering.

Overall, these events left management in a very bad light. With continuing rising arrears and the outflow of savings funds from the firm of £300 million over two days prior to nationalisation[76], regulators finally decided to nationalise the bank on September 27th 2008.

Knowledge

During 2006 and 2007 two board members left the firm, namely: Sales Director Christopher Gillespie and Non-Executive Director Sir George Cox. In their place Roger Hattam (Operations Director), Mark Stevens (Sales Director), and Michael Buckley

70 *The six days that almost broke the bank* The Sunday Times, June 8, 2008; Business, p. 11, John Waples

71 *The awful moment when B&B knew it faced potential panic* The Times, June 3, 2008; Business, p. 42, Patrick Kosking, Siobhan Kennedy, Christine Seib

72 *In business there are lies, damned lies, and the art of misspeaking* The Daily Telegraph, June 4, 2008; City, p. 7, Jeff Randall

73 *B&B rights issue 27.8% subscribed*, Daily Deal, August 19, 2008, Neil Sen

74 *Underwriters left with 72pc of rights issue*, The Independent, August 19, 2008, p. 42, Nick Clark

75 *B&B debacle leaves backers with overhang*, EuroWeek, August 22, 2008

76 *Former B&B chief 'massively sorry' for demise of lender* The Independent, November 19, 2008; Business, p. 44, Mathieu Robbins

(Non-Executive Director) joined the Board. While the incoming executive directors were very young, 38 and 39 respectively, the incoming non-executive director Michael Buckley had substantial experience in finance having previously worked in senior positions at Allied Irish Banks and also at the Irish Mission to the EU. Thus, while Cox was replaced by another experienced and well-networked non-executive director, questions must be asked about the experience and suitability of the incoming executive directors, especially given their young age.

Furthermore, the year 2008 proved to be more turbulent in terms of board turnover with Mark Stevens resigning in September as Director of Sales due to the bank curtailing its lending activities[77]. Robert Dickie (Operations) also left the bank in May after the announcement of a first quarter loss[78] [79]. The most significant board change prior to nationalisation however was the resignation of Steven Crawshaw at the end of May due to acute health problems[80], at the time when the bank was ready to announce its second attempt at a rights issue. This sudden departure of Crawshaw prompted Rod Kent to take over the role of Executive Chairman until a new Chief Executive could be recruited.

Chief Executive Turnover The relationship of the Chief Executive and Chairman is at the core of governance and decision-making for any plc (Roberts, 2002). As already discussed in Period 2, Chairman Rod Kent and CEO Steven Crawshaw had a similar vision of the firm, that is, not operating as a retail business but focussing on specialist lending. Kent's closeness to the planning and decision-making processes of the executive board is illustrated by the fact that he was making much use of his office at the bank's headquarters. According to an interviewee[81] Kent spent a lot of time at the London headquarters during his chairmanship. This closeness to executive decision-making and his experience as CEO of Close Bros might have been useful to Steven

77 *Key B&B executive quits as lender prepares to focus on cutting costs* The Daily Telegraph, September 2, 2008; City, p. 3, Philip Aldrick

78 *Bradford & Bingley hit by extra 125m blow* Daily Mail, April 23, 2008; p. 74

79 *B&B says funding is secure despite rise in bad debt* The Independent, April 23, 2008; Business, p. 36, Sean Farrell

80 *Pym offers B&B the hope of stability* The Daily Telegraph, August 18, 2008; p. 3, Peter Taylor

81 Director C

Crawshaw, but on the other hand, might have compromised his judgement and his monitoring function by being invested in the decisions taken.

Consequently, following the resignation of Crawshaw, Kent assumed the role of Executive Chairman, giving him even more power than before. Now in absolute control of the full board, discussion of problematic issues, or even dissent, could have become even more difficult. In particular, his leadership styles was described as more decisive and less tolerant of longer discussions on the board, especially once he had made up his mind about an item of discussion[82].

Rod Kent remained in that position for three months during which he successfully executed the rights issue and recruited a new Chief Executive. On August 18, 2008 Richard Pym was announced as the new chief executive. He is reported to bring with him substantial experience in mortgage banking and savings, having led Alliance & Leicester between June 2002 and July 2007.

According to interviewees[83], Richard Pym was similar in leadership style to Lindsay Mackinlay. He is described as inclusive, a good listener and encouraging board members to share their point of view. His experience and profile thus suggest that the bank sought to hire an experienced chief executive that has the knowledge and ability to 'steady the ship' and guide the firm into 'calmer waters', that is, to change the strategy of being a specialist mortgage lender. This view is supported by a strategic announcement made by the bank on September 25[84] in which the new chief executive announced measures to reduce the risk of the bank and to transform it into a savings bank. In the end Pym did not get the time to implement the new strategy as the bank was taken into state ownership four days later.

Of interest in this context is also the choice of Pym as Chief Executive due to his background being different from that of Crawshaw or Kent. Pym's reign at Alliance & Leicester was described as *"having played a good hand with the cards he'd been*

82 Director C

83 Directors A & Y

84 Bradford & Bingley Press Release: *Bradford & Bingley streamlines operations*, 25/09/2008

dealt"[85]. Pym's announcement of converting Bradford & Bingley back into a savings bank thus illustrates his different strategic vision.

Additionally, as part of the Nominations Committee Rod Kent was very involved in recruiting the new CEO and it implies that the committee was looking for a personality to fundamentally transform the organisation, much like the appointment of Christopher Rodrigues. This is further supported by comments made by Alex Potter (Analyst, Collins Stewart) claiming that "*The way Rod Kent tried to distance himself from the previous management was shocking, when he has been the chairman for five years.*"[86]

This then suggests that the Chairman either (a) reconsidered the previous strategy in the light of recent developments, or (b) was not as powerful as his position suggests, or (c) was not fully convinced of the previous strategy. Recalling Director X's statement that strategic change can only be implemented when the chairman and chief executive agree on the direction of change, suggests that option (a), which is a favourable interpretation of his role, is the most likely interpretation. However, (b) and (c) would suggest that the executive board members had captured the board and that Steven Crawshaw was the dominant figure in the board room. Hence, based on the evidence presented so far in Period 2 and 3, it is reasonable to state here that Rod Kent, was, if not co-opted by the new CEO, a fundamental supporter of his strategy as he shared a similar vision.

5.6.3 Summary

The period 2006 – 2008 marks the end of the Revival life-cycle phase and, with nationalisation, the firms transition into the Decline phase of its life-cycle. While it could be argued that the firm entered another Revival phase with the appointment and planned strategic reorientation, this revival never materialised due to the nationalisation of the bank. Nationalisation and the subsequent transfer of Bradford & Bingley's mortgage assets into the Bad Bank (UKAR - The UK Asset Resolution Trust) thus marks the start of a new life-cycle phase – Decline.

85 *Bradford & Bingley appoints new boss*, Investors Chronicle, August 18, 2008

86 *Bradford & Bingley: arrears are not the biggest problem* Citywire, June 10, 2008

The events of the period again raises questions about the quality of decision-making in the top echelon of the firm. In particular, doubts whether the board was functioning properly exist. The struggle to successfully complete the rights issue is just a case in point.

For example the bank continued to pursue its strategy and growth until May 2008, after the failure of Northern Rock, Bear Stearns and mounting subprime losses for many banks. Why did the bank continue lending strongly despite market conditions? Another example is the funding situation of the bank, where in early 2008 the bank insisted to be funded well into 2009, when only a short time later it finds itself in need of a capital injection. While it is easy to analyse these decisions with hindsight, it nevertheless raises questions about the quality of executive directors, as well as lending standards and monitoring and oversight by non-executive directors.

On a management level, questions such as whether the bank did sufficient stress testing of its assets, or considered a number of possible scenarios and made plans accordingly, or even monitored the external environment adequately have to be asked. There is also the possibility that there was disagreement between executive members on the board about the correct course of action, with the resignation of Robert Dickie and Mark Stevens being interpreted as such.

Questions have not only to be asked of the executive board members, but also of non-executive board members and their role. Did they execute their oversight responsibilities well enough or were they in some form co-opted or controlled by the executive management? A number of non-executive directors had substantial outside demands, such as Ian Cheshire (CEO – Kingfisher) and might have found themselves under time constraints while executing their role. Alternatively, did they trust the assertions of executive board members too much and didn't challenge them sufficiently? Was there a problem of group think, where alternatives to the set course of action were not considered? The role of the Chairman is at best ambiguous, but based on the evidence presented, a more negative view of his role could be taken.

5.7 Period 4: Post-Nationalisation 2008 Onwards

Bradford & Bingley was nationalised on September 29, 2008. By determination of the Financial Services Authority (FSA) the bank did no longer satisfy the conditions for operating as a deposit-taking institution as of September 27th 2008[87].

In its Annual Report 2008, the bank credits external market events for its collapse, in particular the effect the HBOS collapse had on public confidence and the subsequent outflow of customer deposits. Furthermore, it states that from the third quarter of 2007 onwards the bank was affected by:

- A material and rapid reduction of the availability of wholesale funding,
- The increase of the cost of retail and wholesale funding,
- The substantial deterioration of the market value of some treasury assets,
- The increase of mortgage arrears, and
- Reduced redemptions increasing the need for funding.

Annual Report 2008, Director's Report, p. 3

However, while the bank was severely affected by the financial crisis and the breakdown of financial markets, it was at no point in time insolvent[88]. In fact, the non-forthcoming liquidity support from the Bank of England as well as B&B's failure to appropriately model the liquidity stress it was finding was seen as the major reason for its collapse. Furthermore, though the bank admitted in the Annual Report 2008 and in interviews that it had internal problems, like poor lending standards and poor credit risk measures in the run up to the crisis[89], as well as fraud problems in the buy-to-let

87 Annual Report 2008, Director’s Report, p. 3

88 Director B

89 Director Y

portfolio[90], it was acknowledged that these problems were not enough to bring the bank down. However, profitability was damaged[91].

At the time of nationalisation Bradford & Bingley had Total Assets of £52.5 billion, including Loans and Advances to Customers of £42.2 billion. These assets were funded by £28.4 billion of wholesale funding and £20.4 billion of customer deposits. Due to EU State Aid Regulation, prohibiting the bank from accepting new deposits or making new loans, the deposit-taking side as well as the sales operations had to be separated from the remainder of the business. Thus the deposit-taking side and sales operations were sold to Abbey National (Banco Santander Group) which saw the transfer of £19 billion of net liabilities, as well as all branches and approximately 1500 members of staff, for a consideration of £600 million. The retail funding was then replaced by £18.4 billion of statutory debt borrowed from the Financial Services Compensation Scheme (FSCS) and provided by HM Treasury. The next section focuses on the strategic transformation the company underwent after nationalisation and how these challenges were overcome.

5.7.1 Strategy

The most significant strategic changes happened during the early parts of this period, whereas in latter years the firm settled down after significant restructuring. These strategic changes, as part of the new business plan, are discussed next.

The New Business Plan

Following nationalisation, the new primary business objective was the orderly winding down and repayment of the loan by the FSCS and the working capital facility provided by HM Treasury. In doing so, Bradford & Bingley transformed into a mortgage servicing company. The main task of the board at the end of 2008 and during 2009 was thus 'to steady the ship' and honour the ongoing obligations in the wholesale

90 Annual Report 2009/2010

91 Director B

market and to creditors. One interviewee described the situation as 'rather static'[92]. Besides repaying its creditors, Bradford & Bingley also defined its objectives as:

- Running down the balance sheet,
- Minimising impairments and losses, and
- Restructuring and realigning the business.

Annual Report 2008, Director's Report Business Review, p. 5

The Annual Report 2008 contained a further objective of the firm, beyond what was published in March: to find a future purpose for the company. This new purpose may include being an outsourced service provider to the mortgage industry. Again, finding a purpose beyond clearing the inherited liabilities of the previous management is setting the firm up for a new, future purpose that goes beyond its current one. This new objective lays the foundation for the firm to exit the Decline stage and enter a new life-cycle stage at some point in the future. Further, in the business plan published in March 2009, the board defined the primary strategy to achieve these objectives as[93]:

- Ceasing new lending,
- Running down the mortgage book by stimulating redemptions and sales of loans,
- Running down or selling the commercial loan book, and
- Running down or selling other wholesale assets (for example, MBS).

Bradford & Bingley Business Plan March 2009, pp. 6-7

In short, this fundamental change in business objectives and strategy had an impact on the resource needs on the firm. It is also suffice to say that the new strategy is a

92 Director B

93 Annual Report 2008

complete opposite to that of the previous life-cycle stage. Whereas the old strategy focused on growing mortgage balances aggressively, the new strategy focused on maximising returns to the taxpayer by winding down the mortgage book with minimal losses.

The Creation of UKAR – A new Purpose

On July 1, 2010, the government created UKAR (The UK Asset Resolution Trust) to combine the remnants of Bradford & Bingley and Northern Rock Asset Management (NRAM), the entity that houses all the bad debts of Northern Rock. On October 1 of the same year, all shares, assets and liabilities of B&B and NRAM were transferred to the new entity, UKAR. As explained by Director B, UKAR reports to United Kingdom Financial Investments (UKFI) which manages all HM Treasury holdings of the UK banking sector[94]. While NRAM and Bradford & Bingley remained separate entities for reporting purposes, their management and operations were integrated. This included closing NRAM offices in Gosforth and decommissioning the old IT systems and moving to new single systems for various business functions. The scale of the undertaking was considerable with UKAR managing £112 billion of mortgage assets and financial instruments at that point.

Wealth Protection vs Wealth Creation

> *"we now have the level of data that if you want to know [the arrears] for a particular geography, or customer segment, or mortgage type, you can actually – whereas before it's just arrears."*
>
> *Director Y*

Furthermore, the improvement in credit risk measurement and analysis had a positive impact on the firm:

> *"we have become experts in risk management, that is what we do, so everyone is now looking to us, so we have actually almost accidentally generated a skill set"*

94 For example, RBS, Lloyds TSB, UKAR

Director Y

These risk management skills also allowed UKAR to identify customers most likely to run into arrears and pro-actively target those. The acquisition of new skills in debt management thus provided Bradford & Bingley with a way forward past the full run down of the mortgage book. In a nutshell, it reinvented the company. Part of this reinvention was also the right to administer the government's Mortgage Guarantee Scheme (MGS), another opportunity for the firm to build and improve its skills, and, to generate wealth[95].

The post-nationalisation period also witnessed a tension between the governance functions of wealth protection and wealth creation, an observation which emerged from the interview evidence. While interviewees stressed the importance of wealth protection, that is, protecting the tax payer by repaying the state support in full, they recognised that it is important for the firm to create wealth as well, not only to speed up the repayment of debt, but also to remain an attractive place to work and attract skilled employees:

> *"If you can create something else that keeps [employees] interested you would actually do more wealth protection because you keep those people, so there is a slight potential wealth generation on the side."*

> *"Wealth creation is actually really interesting to us because there is wealth creation in terms of giving extra money to the taxpayer, but also keeping the resources that allow us to do wealth protection."*

Director Y

These statements again show that even during this phase of reinvention where wealth protection is very important to the firm, wealth creation activities are planting the seeds for the future and contributing to maintaining the firm.

In general, the strategic decisions the board can make are limited to mainly operational decisions, such as whether to sell part of a loan book or infrastructure

95 Director B

decisions. However, these wealth creation activities, such as employing the new skills in the administration of the Mortgage Guarantee Scheme, provides opportunities for the board to make strategic decisions outside the legal limits imposed on the business in run-off. However, as is illustrated by this quote, the board is aware of the growing potential for wealth creation in the future:

> *"the reason we can't lend money is not because we do not think there are very good lending opportunities … it is just because the European Commission doesn't allow banks [in receipt of State Aid] to lend money [and compete with other banks]. [However strategy] will become more important as the book declines."*
>
> *Director B*

In summary, this section on strategy showed how strategy implemented by the bank changed fundamentally after nationalisation. The discussion further showed how, after the amalgamation of Bradford & Bingley and NRAM into UKAR, new skills and opportunities were created and how these contribute to the tension between the wealth protection and wealth creation functions of governance. Overall, strategy during this period is a factor that is of some importance for the board. For example, the board actively, but not purposefully, created new strategic opportunities and a future purpose for the firm, yet the strategy of the firm was still constrained by state aid regulation. In the next section, Resource, the impact of the new strategy on the resource needs of the firm is discussed.

5.7.2 Resource

The resource needs of the firm, driven by strategy, evolved from 2008 onwards. During the previous life-cycle stage (Period 1 and 2), Bradford & Bingley was a business which had undergone a transformation of its business model as a consequence of the strategic and operational changes implemented under the previous two chief executives. In spite of the initial revival of its fortunes and growing profits until 2005 however, the business model proved unsustainable over time. Consequently, the bank's collapse and subsequent nationalisation moved the bank into the Decline stage of the organisational life-cycle. As a result of these events a new set of financial and knowledge resource needs arose with a different profile.

Finance

After nationalisation, the years 2008 and 2009 were difficult for the company. After the sale of the deposit-taking part of the business to Abbey National, the £19 billion of retail deposits were replaced by a loan of £18.4 billion from the FSCS. The FSCS in turn received the money from HM Treasury to pass on to Bradford & Bingley. As the money was received as a loan, the bank must pay interest to its creditors. In addition to the debt funding, HM Treasury also provided a working capital facility (WCF) with a maximum credit line of £11.5 billion.

Due to the difficult economic and financial conditions of the economy, and therefore many of its mortgage customers, as well as problems with fraud in the buy-to-let business, the bank had to recognise substantial losses on its portfolio of assets for the years 2008 and 2009. Table 5.9 below provides an overview of losses recognised on Bradford & Bingley's financial statements:

In £m	**2008**	**2009**	**2010**
Realised Gains & Losses on Financial Instruments	120.3		
Loan Impairment (Loss)	-507.7	-593.7	-276.6
Investment Impairment (Loss)	-191.6	-93.3	14.5
Gain (Loss) on Sale of Assets & Liabilities	-216.3	-8.5	46.9

Table 5.9: Recognised Losses & Impairments of Assets & Liabilities

As can be seen in Table 5.9, the company started to stabilise in 2010 and thus needed no further funding from the FSCS or HM Treasury to continue operating. In fact, the redemptions and sale of loan books generated sufficient capital to start repaying the WCF, as well as repurchasing outstanding debt at a discount. Furthermore, most financial assets, the commercial loan book, and the insurance business have been disposed off.

However, redemptions were held back by the poor quality of the loans as those borrowers found it difficult to refinance through other mortgage providers[96]. Thus the firm was faced by a worsening quality of the loan book as higher quality borrowers redeemed their loans and refinanced elsewhere.

Overall, the company's financial needs were satisfied through its current operations and it began to repay the loans. New ventures such as the administration of the MGS will generate additional income in the future, however the company was in no need to attract additional capital to finance any restructuring. As a result, the financial resource needs of the firm were low.

Knowledge

Bradford & Bingley's time since 2008 can be split into three distinct segments in terms of skills requirements: Phase 1, 2 and 3. Phase 1 started from demutualisation until the resignation of Christopher Willford and Roger Hattam in mid-2009. This phase was mainly marked by the transition of the business into government ownership and financial stabilisation. Phase 2 started with the appointment of Richard Banks in mid-2009 and lasted until the October 1, 2010, when the new governance structure under UKAR was introduced. Phase 3, the final phase to date, covers the integration of operations of Bradford & Bingley and NRAM under the umbrella of UKAR. This subsection will, in turn, discuss the knowledge and skills needs of the board for each of the phases.

Phase 1 (End-2008 – Mid-2009)

Initially after nationalisation at the end of September 2008, the full board stayed on for a short while to facilitate the transition into state ownership. Most non-executive board members resigned on November 14, 2008 with the exception of Louise Patten and Michael Buckley. Additionally Christopher Willford (Finance Director) and Roger Hattam (Operations Director) continued to provide their services during this transitional phase. Richard Pym, who had joined Bradford & Bingley shortly before nationalisation however continued to serve the firm as executive chairman after the resignation of Rod

96 See for example, UKAR Annual Report 2012, Chief Executive Officer's Review, p. 6-8

Kent[97]. The primary goal during this period was to stabilise the business and prepare the handover to a new management. Thus the knowledge and skills, in particular of Christopher Willford and Roger Hattam would seem to be of high importance during this time.

Christopher Willford's knowledge of the financial position of the firm and the details of its financial dealings, as well as Roger Hattam's knowledge of the operational side of the business, will have been critical during the handover to a new team. Both of them retired from the board in 2009 when Richard Banks, formerly of Alliance & Leicester, joined the board as Managing Director. Generally, during Phase 1 the firm's knowledge needs were limited. It did not require new skills but rather needed existing knowledge to facilitate the handover into government ownership.

Phase 2 (Mid-2009 – October 2010)

With the appointment of Richard Banks as Managing Director and Richard Pym's new role as Non-executive Chairman, a new direction was taken. The primary objective during this time was to make progress on improving business operations and to build a new management team suited to the new circumstances. As the business was in wind down, it only needed a skeleton board to operate. Thus the top management team consisted of only four members, two non-executive directors as well as Richard Pym and Richard Banks. Other roles normally exercised by board members, such as finance or operations, were exercised by senior executives instead. Overall, during this second transitional phase, the knowledge requirements remained low.

Phase 3 (from October 2010)

The beginning of Phase 3 is marked by the establishment of UKAR and the amalgamation of the operations of NRAM and B&B under one umbrella. The UKAR top management team was now responsible for running both businesses and as such the management teams of both entities were merged[98]. All the board members of Bradford

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97 The Times, November 15, *Kent stands down as B&B chief*, Patrick Hosking, Business and Finance Editor, Business pg. 64, 256 words.

98 UKAR Press Release: *Northern Rock (Asset Management) plc confirms integration with Bradford & Bingley plc under a new holding company*, 01.10.2010

& Bingley joined UKAR in their respective positions and were joined by three non-executive directors from NRAM, namely: Kent Atkinson, Bob Davies, and Sue Langley. The three of them had extensive experience in banking, risk, finance, accounting, insurance and operations. Furthermore, an additional non-executive director was recruited by Bradford & Bingley in the person of John Tattersall, who joined in October 2010. He was formerly a partner at PriceWaterhouseCoopers responsible for the financial regulatory practice. Additionally, Keith Morgan, Head of Wholly-owned Investments at UKFI, joined the board as representative of the majority shareholder. Jim O'Neil later joined UKAR in 2011 as a second representative of UKFI.

While the executive team remained very small, fitting with the diminished scope and objectives of the company, it retained a very experienced non-executive board. This could be interpreted as a signal of the importance of strategic advice for the firm as well as possibly providing a stronger oversight regime than what was in place before. This interpretation is supported by comments made such as:

> *"So I brought all the knowledge, but one doesn't come onto the board to teach the executive, one comes on the board to challenge the executive, to ask the right questions."*
>
> *Certainly at B&B and Northern Rock the non-executive directors are not introducing context … it is challenging people when they really don't know what they're doing or seem to be going off the rails.*
>
> *Director B*

Two undertakings during Phase 3 required specific skills and expertise that was brought onto the board. The first undertaking was the merging of operations of NRAM and Bradford & Bingley onto one management information system. Sue Langley, with a strong background in operations, was instrumental in this:

> *"[She] was seconded onto the Risk Committee for those decisions to be made [moving onto a single system] because of [her] operational experience."*
>
> *Director Y*

A second project, as stated by interviewees, was the redesign of risk measures. This was necessitated by the deficient nature of NRAM's and Bradford & Bingley's board packs, as well as the operational merging of the two firms. All interviewees who were active within this period from 2008 onwards emphasized the improvements of credit risk and mortgage arrears measures made, which helped to significantly improve the arrears performance of UKAR.

> *"The way it was done [measuring arrears] pre-nationalisation … we wanted to be far more rigorous … then we introduced these new risk measures and the introduction of those … has allowed us to pro-actively target the right customers to try and help."*
>
> *Director Y*

> *"our arrears percentage is high across the market because we have a book [that] was badly underwritten in the past, but if you look at the [before and after] we have much better stats [now]"*
>
> *Director B*

Overall, the new board contributed significantly to the operational and strategic changes the firm underwent in Phase 3. While most of the directors were hired prior to the creation of UKAR, their experience undoubtedly contributed to the changes undergone. Overall, the significant nature of the challenges of merging the two firms operationally, created high knowledge resource requirements during this phase.

5.7.3 Summary

This section has explored the changes Bradford & Bingley's governance functions underwent after nationalisation. It showed that strategy and knowledge resource needs became necessarily more important with a changed business model and company structure, while financial resource needs remained low as a result of the new strategic direction.

5.8 Monitoring

It is undisputed in literature that monitoring is a fundamental function of the board. The owners and creditors of the firm have a vital interest in maintaining an element of oversight to ensure that no resources are misappropriated or extracted by management and that decisions are taken with the benefit of the owners in mind. While it is not the goal of this section to deny the importance of monitoring within the corporate governance framework, it adds to existing evidence (for example, Zahra & Pearce II 1989; Lynall et al. 2003) that monitoring is neither the sole nor the most important aspect of corporate governance for non-executive directors in many stages of the organisational life-cycle.

Generally, monitoring and its importance as a governance function is based on agency theory (Fama & Jensen, 1983; Jensen & Meckling, 1976) and its underlying assumptions of the behaviour of principals and agents. Many studies have already argued that agency theory as a corporate governance model is applicable only to mature firms (for example, Jawahar & McLaughlin, 2001; Lynall et al., 2003; Smith, Mitchell, & Summer, 1985). Corporate governance life-cycle theory contends that the degree of monitoring is dependent on the amount of assets a company owns. Thus, the need for monitoring increases with the size of the firm, peaking at maturity when the firm is at its largest. In this the theory supports agency theory in that monitoring is important for mature firms. However, as is argued by the above authors, as well as by the theory, monitoring in other life-cycle stages is of lesser importance relative to other governance functions.

While the above discussion is applicable to firms in general, monitoring in financial institutions is a vital function as financial institutions act as deposit takers and are handling large quantities of clients' funds. As expressed by Director X: *"it is the prime responsibility as a Director … to protect the funds"*. Therefore the collapse of financial firms due to fraud or excessive risk taking, and by extension a problem of monitoring, is often prime news (for example, Bernie Maddoff and Section 2.2, page 11). Consequently, monitoring as a governance function should not be expected to vary to a great extent across the different life-cycle stages of financial institutions.

The purpose of this section is to further demonstrate how the view on monitoring evolved between the late 1990s and late 2000s and to show that monitoring has moved from a focus on strategy and informal structures to a more formal systems based on structures and legal requirements. Furthermore, this section explores how monitoring is seen as only one of a number of governance responsibilities. The remainder of the section will therefore juxtapose the nature and perception of monitoring evident during Periods 1 and 4 (see Table 5.1, page 81).

5.8.1 The Evolution of Monitoring at Bradford & Bingley

The account given here of the evolution of monitoring at Bradford & Bingley over time is based on concrete evidence provided by interviews. The emphasis of monitoring during Period 1 was very much on strategic advice as illustrated by this quote:

> *… the determination of strategy is the most important thing for the Board to do …*
>
> *Director Z*

In this regard monitoring was considered secondary, that is, *“the determination of strategy, and monitoring the implementation of that, in that order, is the right way round"* [99]. Thus monitoring is seen as a function of the strategic choices made.

Again, in the context of governance and monitoring, strategy was considered to be an integral part of the position of non-executive director throughout the periods. However, due to the changed scope of the firm after nationalisation, the nature of strategic advice is different, that is, directors do not have to decide on new products, but are limited to for example selling bits of the book, property acquisitions and disposals, and key appointments. This limitation might therefore affect the way directors in Period 4 view their role. Nevertheless they still see their key role to

> *“support the executive team, but ... also ... to challenge them and ask difficult questions”*

99 Director Z

Director Y

and

"participating in decisions, discussion of issues, challenging management … and contributing to the decisions".

Director B

The language is therefore very different from Period 1 and the word 'challenge' in particular stands out. The notion of challenging management is also noticeably not present in interviews conducted with the directors of Period 1. With these directors, the focus is more on providing strategic advice and supporting the executive team as well as ensuring that the strategy is being implemented properly[100].

Monitoring as a Compliance Function

"the compliance obligations hopefully are being observed and clearly if they weren't you would want to know"

Director A (Period 1)

The awareness of regulatory compliance and other legal duties are described very differently in Period 4. Respondents emphasize their role as monitors to a much larger extent and, in particular the changed external drivers of monitoring. In that vein, monitoring is described as *"a safety comfort blanket"*[101] and *"almost like the hygiene thing"*[102]. This notion of protection is further extended due to legal demands, which have substantially increased and continue to change as corporate governance evolves in response to recent crisis.

100 *"it is the Board who must determine what decisions on strategy should be made and then for the executives to go away and implement it"* – Director Z

101 Director Y

102 Director Y

Furthermore, these increasing demands and legal duties are seen as very important, as failure to perform the director’s role adequately is now a criminal offence. This legal approach to oversight is supported by internal systems of control that are designed to reduce the likelihood of governance problems. However, in the light of these demands, the directors’ responsibility to ensure the satisfactory working of these controls is seen as problematic:

> *“We have to rely on the executive team that [the fix] has been implemented because we are not in business [and if] something goes wrong [after it has been fixed] I am criminally liable for that. It's very difficult as a non-executive when you are doing only 12 meetings a year … to actually … test that it is implemented.”*
>
> *Director Y*

The increasing demands on non-executives are not new though. Rod Kent (Chairman 2002 – 2008) noted in the 2004 Annual Report that:

> *“[t]he increasingly complex regulatory landscape is an inescapable part of life as a financial organisation. … Regulatory requirements will continue to put pressure on costs and absorb[~~s~~] management time.”*
>
> *Annual Report 2004, page 3*

An extrapolation of this argument is that at some point these regulatory requirements will impede the performance of non-executive directors, by limiting the time spent on other issues, such as strategic advice, that are perhaps less encumbered by legal penalties. In particular those non-executive directors that are in full-time employment elsewhere might struggle to perform their duties:

> *“one of the problems I think is that as non-executives are now recruited to a great extent from people who are in an executive role in another company. ... it has lots of benefits but it does mean that their time is somewhat precious. … there isn't really the time to perhaps get a little more involved with the business on which they are a non-executive"*

Director A

For one of the interviewees these time commitments amount to approximately 30 days per year[103]. This is a considerable amount of time for directors in full time employment, such as former non-executive directors Ian Cheshire (CEO – Kingfisher) and Stephen Webster (Finance Director – Wolseley) who had demanding primary jobs. Therefore their time commitment and capacity to sufficiently engage in their directorial duties, with corresponding negative implications for the quality of their contribution to board discussion is questionable.

Monitoring through Informal Channels In opposition to these formal governance requirements, stand more informal approaches to oversight such as visiting branches or back office operations. These visits would then inform non-executive directors and help them to perform their role:

> *"I think you learned on occasions when the policy being pursued from the top were leading to problems and were not perhaps as good as it was believed by management … it gave me the opportunity from time to time to realise about those problems."*

Director A

> *"I would always meet with him [the CEO] at least every couple of months just on a one to one basis and I would talk about … reactions which I found on visits and talking to people; and I always tried from time to time to meet on a one-to-one basis with other members of the executive team"*

Director A

It is seen that these visits were clearly important to the non-executive board members in Period 1, they do not feature as prominently in Period 4. Indeed, Director B expressed this as:

103 Director B

"Part of it is taking time to go and do site visits, ..., we are encouraged to do that and there are no restrictions on us doing that"

Director B

In addition, monitoring in Period 4 includes activities such as employee satisfaction surveys to measure employee contentment, an item that did not feature during interviews with respondents active in Period 1. Overall, there is a distinct impression that the quality of monitoring has changed over time away from the more informal and engaged site visits towards fulfilling legal requirements imposed by the regulator and perhaps a more 'tick box' like approach:

"… the PRA [Prudential Regulation Authority] and FSA are looking to be whiter than white and they have a tick box and they say if [the financial institution] have implemented this [internal control], then we are happy …"

Director Y

Monitoring in Financial Institutions As discussed above, monitoring is a critical activity for financial institutions. Furthermore, the extension of the organisational life-cycle, the corporate governance life-cycle, postulates that monitoring is related to the amount of assets owned by the firm. Thus a large resource base and complex operations require more efforts in monitoring. However, based on the interview data collected, a different observation can be made on this assertion of the corporate governance life-cycle theory. Rather than monitoring being solely tied to assets, it was considered to be related as much to strategy as to financial complexity:

"if you are doing new things, monitoring … a new direction may require you are a little bit more attentive that monitoring an existing course."

Director Z

"if the business is being properly run, the strategy is right, then all you are ensuring is that it is being implemented through process of monitoring"

Director Z

Having said that, monitoring in financial institutions is core to their activities and as such levels of monitoring should not be expected to differ significantly between life-cycle stages, as argued by the corporate governance life-cycle theory.

> *"I would say monitoring is an important ingredient throughout; I don't think it lessens or increases really."*

Director A

5.8.2 Summary

> *"corporate governance is not about text books. There is best practice which is at the heart of it, but it is about the people you have around the Board, the motivations of the CEO and Chairman … and the mix of personalities and skills you have around the table affect that governance."*

Director Y

For a financial institution monitoring is a nexus of legal requirements, for example, maintenance of Tier I capital, protection of depositor funds and strategic needs. It can therefore be argued that the board does not only need to monitor whether all relevant regulations have been adhered to, but also to provide advice and challenge management on its plans and the implementation of these plans. Furthermore, what has emerged from the above discussion is that the satisfaction of legal requirements is taking up more time as a result of changed regulatory requirements and as such may put pressure on non-executive directors. Thus, in the post-financial crisis world, monitoring is much less seen as an integral part of doing business, than as a legal requirement. This is further reflected in the language used which is much more based on a legalistic and rigid terminology, compared to the late 1990s and early 2000s.

In addition, the interview evidence suggests that the increasing time commitment required of non-executive directors may impact on the quantity and quality of the monitoring process and that the increasing reliance on systems of internal control creates a false sense of security, while non-executive directors rely on management to maintain these controls. Thus, while the responsibility and personal liability of non-executive directors has increased, their control function is compromised by outside commitments, in particular of full-time executives, and an increasing reliance on the executive management team on the implementation of control systems.

Following the above discussion which investigated Bradford & Bingley's two transitions between life-cycle stages since 1995 as well as the evolution of its monitoring function during the same period of time, the next section discusses the findings of the whole chapter, including situating this research and its contribution to literature.

5.9 Discussion and Conclusion

This chapter set out to analyse multi-period transitions of Bradford & Bingley between 1996 and 2010 using the organisational life-cycle theory. In particular, it viewed these transitions through the lens of the three main functions of corporate governance: strategic advice, resource, and monitoring (Filatotchev et al. 2006).

Organisational Life-Cycle Stages

The organisational life-cycle and its extension, the corporate governance life-cycle, offer a way to think about an organisation's development. Yet research into the processes preceding and following the move from one life-cycle phase to another is scarce (Filatotchev et al. 2006). This research therefore contributes to the literature by investigating how strategy, financial resources, the board, and monitoring adjusted around the time of transition between life-cycle stages. As was proposed in the Section 5.3, the bank moved from Stage 3: Maturity to Stage 4: Revival, ending in nationalisation in 2008 and the start of Stage 5: Decline.

The arrival of Christopher Rodrigues in 1996 and the ensuing corporate changes marked the beginning of a new life-cycle stage. The decision to engage him to become Chief Executive was a deliberate, strategic decision by the board in an attempt to revive the Society and ensure its continued economic existence, as argued in Period 1. However, Period 1 witnesses a second major event – demutualisation. The demutualisation of the Society in 2000 fundamentally changed how the firm related to its customers and other stakeholders, as well as moving it into a different regulatory regime. Interestingly though, this event did not trigger a new life-cycle stage as the firm continued its strategy. This assessment is further supported by interviews, which revealed that board members did not consider the change to plc status to have had an impact comparable to the arrival of Christopher Rodrigues[104].

Again, the arrival of Christopher Rodrigues (Period 1), though significant, did not change the company over night, but started a gradual process of transition. In this sense

104 For example, Director A, Director X

life-cycle phases should not be seen as periods with well defined boundaries, but rather overlapping periods of varying length, where each period has distinct characteristics that distinguish it from another. This implies that the passage from one life-cycle stage into another is a fuzzy event, and stages may indeed overlap (Jawahar & McLaughlin, 2001), as the firm adapts to the strategic and governance requirements of the new stage. Furthermore, the determination whether a firm has transited into a new stage can only be made ex post, unless a clear marker, such as a very significant disruptive event (for example, nationalisation) has occurred.

It is also important to note that any categorisation of events into organisational and corporate governance life-cycle stages is only an approximation of actual events. What should have become clear during the discussions in this chapter is that there are variations of governance functions within each life-cycle stage, not only between life-cycle stages. The differences between life-cycle stages are naturally significant, however change is a continuous process, rather than an abrupt one and transitions between stages are thus fuzzy, as argued above. Overall, fitting dynamic developments into a static model is suboptimal, however it can nevertheless be instructive in evaluating how Bradford & Bingley changed between 1995 and 2013.

In 2008 Bradford & Bingley was nationalised by the FSA, and while the bank was in financial difficulty at the time – though not insolvent[105], nationalisation was a sudden and abrupt event that moved Bradford & Bingley into a new stage of its life – decline.

Nevertheless even in this case, a fuzzy transition period can be observed. For example, when Bradford & Bingley moved into Stage 5: Decline, the date of nationalisation marks the transition. However, the process of change is not an abrupt one, but gradual. The board of Bradford & Bingley resigned only six weeks after nationalisation, with select board members staying on beyond that time. As previously discussed, the transition of Bradford & Bingley in Stage 5 had so far three phases of adaptation to the new circumstances of its existence: stabilisation, the appointment of a new management team and the creation of UKAR.

105 Director B

Thus it can be concluded that major external events as well as management decision-making influence the life-cycle progression of the firm. The way the firm copes with these events, or which strategy it seeks to pursue, are then determined by the top management team and its mix of skills, expertise, and personalities.

Corporate Governance Functions

The focus of this study is not only on organisational life-cycle transitions in general, but especially on the accompanying corporate governance life-cycle transitions and the role of the board and board turnover during this process. What has emerged from the evidence presented in this chapter is a ranking of the relative importance of the three corporate governance functions identified in the corporate governance life-cycle theory, that is, strategic advice, resource, and monitoring. Strategic advice and determination of strategy were overwhelmingly seen by interviewees as the most important contribution that non-executive board members make, with all other functions dependent on these strategic decisions. That is, strategy drives the financial resource needs of the firm and monitoring is a function of not only legal compliance, but also oversight over the implementation of the strategy.

Strategy Over the time horizon of this study Periods 1 and 2 are marked by a large amount of strategic change, for example, the purchase of Mortgage Express (Period 1) or the sale of non-core businesses (Period 2). Periods 3 and 4 are marked by relatively low strategic change, the only exception being the sale of the deposit-taking business.

This change was imposed on the firm by external forces. In particular nationalisation, as a 'black swan event' [106], drove other internal and external contextual changes. For example, the shift in the objective of the organisation is driven foremost by EU State Aid regulation and only then determined by the owners of the firm, HM Treasury. This shift in the agreement of the direction of the firm contrasts with Period 1 1996 – 2004, where the shift in agreement is driven by internal evaluation of the external environment. Furthermore, the turnover of top management team members is of less importance in Period 4 as their influence, in particular on the strategic direction, is limited. Nevertheless, the board had an impact on operational issues, such as

106 Director X

improvements of credit risk measures, and, as noted in Period 4, would be ready to operate in a different context, that is, to change the strategy of the firm. This is further highlighted by the tensions between wealth creation and wealth protection expressed by board members.

A further aspect that warrants discussion in this regard is the role of the external environment. As shown in Table 5.1 (page 81) each period is marked by high or low complexity of the environment. For example, Periods 1, 2 and 3 are marked by high velocity due to the impact of the economic environment on the firm. In particular, the demutualisation and privatisation wave, as well as stock market boom of the late 1990s and early 2000s created an environment in which there was significant pressure on management to 'comply or explain', that is, Bradford & Bingley had to change in order to have an argument to continue as a mutual. In the end this argument was lost, however it prompted the firm to change. Similarly, Period 2 is marked by high velocity as the economy recovered after the dot com crisis and Bradford & Bingley sought to refocus its business model following a negative evaluation of the old model. Also in Period 3, with the increasing confidence in the economy and booming housing market, the argument for a more cautious approach to lending was a difficult to make to investors. Period 4 on the other hand is marked by a lower environmental velocity as the business has been removed from competition through nationalisation and thus external pressure, with the exception of repaying HM Treasury and the FSCS by the time the business is finally wound up.

What is important to note in this discussion is, that for Periods 1, 2 and 4 strategy and environmental velocity are matched, for example, Period 1 is marked by high strategy and high velocity. The only period with a mismatch is Period 3, where high environmental velocity is matched by low strategic activity. The general strategy during this period is two-pronged: cutting cost and increasing sales. Any strategic consideration beyond that is not evident from the documents available. Based on the discussion of strategy in Period 3 it is reasonable to conclude that the top management's assessment of the situation was flawed, helped by poor management information systems, and further that it did not recognise the severity of problems until summer 2008.

Resource The resource function, which aggregates all kinds of resources the firm requires (financial, knowledge, intellectual property, etc) is disaggregated into financial and knowledge. Distinguishing these two resource types adds granularity to the model and enables a better understanding of how resource is impacted by strategic changes. As previously discussed, knowledge resources have been defined as intangible resources, such as skills, experience, and education of the top management team, whereas financial resources are the funds the firm requires to fulfil its objectives.

What has emerged is the dual role played by knowledge resource. First, it is dependent on the strategic direction of the firm insofar as board turnover can be used to add skills and expertise to the board to support the chosen strategy, yet board turnover may also be disruptive by introducing new board members that fundamentally alter the strategic vision of the board and, through their impact, necessitate future knowledge resource changes. Period 1 is an example of the latter, where the addition and promotion of Lindsay Mackinlay to Chairman influenced the choice of the next Chief Executive. Once the fundamental decision about leadership and strategy had been made, the rest of the top management team members were exchanged subsequently as deemed necessary.

On the one hand, as discussed in Period 1, the Chief Executive is particularly influential when choosing his or her executive team and will seek to hire board members that will help him/her to implement the strategy. On the other hand, the choice of non-executive board members is not only influenced by regulatory requirements, for example, the requirement to have a board member with financial expertise on the Audit Committee, but also by the needs of the firm, that is, what kind of expertise or skill is required to support decision-making and oversight of the executive management team. Exemplary of this process are the appointment of Rosemary Thorne as Finance Director in 1999 and Ian Cheshire as Non-executive Director in 2003. Both appointments were made as the skills and experience in retail of both appointees was commensurate with the strategy of the firm of being a financial retailer.

This questions the path dependence of the composition of the board (Lynall et al., 2003). Lynall et al. argue that board composition is path dependent and thus more likely to reflect past requirements rather than future requirements. The authors further argue that board composition is fundamentally influenced by the power distribution between the CEO and external financiers at the foundation of the board. However, the board of Bradford & Bingley underwent dramatic changes since the 1980s, when it was dominated by *“the good and the great”*[107] of the area, and became a professional board, even before demutualisation, but most certainly after. Furthermore, the expressed forward-looking nature of key appointments is not supporting path dependence for Bradford & Bingley's board. At best it can be said that secondary board members are lagging behind key appointments while the CEO/Chairman 'get their feed under the table' and start introducing new board members commensurate with their vision.

Monitoring Finally, monitoring as a governance function has evolved significantly between Periods 1 and 4. In the initial period, monitoring was viewed as a 'natural' ingredient to governance and a consequence of the strategy and financial resource function. With the evolution of regulatory requirements between Periods 1 and 4, non-executives view of this governance function changed fundamentally. In the latter period, monitoring is seen as an inevitable but not well-liked activity: *“almost like [a] hygiene thing”*[108]. This is not to say that directors did not exercise their duty to challenge management assertions, however the regulatory requirements of monitoring were very prominent during the interviews. This is due to the legal repercussions for non-executive directors should it be found that they did not perform their duties in accordance with existing regulation.

In addition, it emerged that the increasing time commitment to perform monitoring tasks was seen as detrimental to the quality and quantity of non-executive's involvement in the other two governance functions of strategic advice and resource. Without further (interview) evidence from Periods 2 and 3, it is not possible to judge whether the increasing reliance on complex systems of internal control coupled with an ever increasing amount and complexity of regulation contributed to Bradford & Bingley's demise, though Rod Kent (Chairman) made a comment in this regard in the annual report 2004. A further point of criticism raised during the interviews is the necessary reliance of non-executive directors on executive directors in the implementation, running, and verification of internal controls. Thus, monitoring, unlike the role of

107 Director D

108 Director Y

strategic advice, has changed significantly during the period under investigation and has become more important on non-executive's minds due to the legal ramifications of non-compliance.

Chapter 6

6 Board Processes between 1996 – 2004 and 2008 – 2010

6.1 Introduction

Chapter 5 investigated the strategic, financial, and knowledge resource need changes between 1995 – 2010 using the organisational life-cycle to show how the firm evolved during this period. The focus was thus on structural issues and their effect on various governance functions. Building on Chapter 5, this chapter seeks to add to the understanding of organisational change at Bradford & Bingley, by investigating the perception of board processes and personalities by top management team members using constructs of the upper echelons theory. In doing so, this chapter will focus on Periods 1 and 4 for two reasons. First, both are periods of significant change, covering demutualisation and nationalisation respectively. Furthermore, each period is very different from each other in terms of personnel, strategy and context, and thus offers a variety of scenarios and situations to be analysed. Second, the available interview evidence is primarily situated in Period 1 and 4 and thus enables a more detailed discussion of board processes during these.

The chapter proceeds as follows. Section 6.2 discusses the application of the constructs of the upper echelons perspective in this research. Section 6.3 presents the perception and experiences of board members during Period 1, that is, 1995 – 2004 and Section 6.4 shows how the perceptions and experiences of board members differ in Period 4, that is, 2008 – 2010. Section 6.5 discusses and concludes the findings of this chapter.

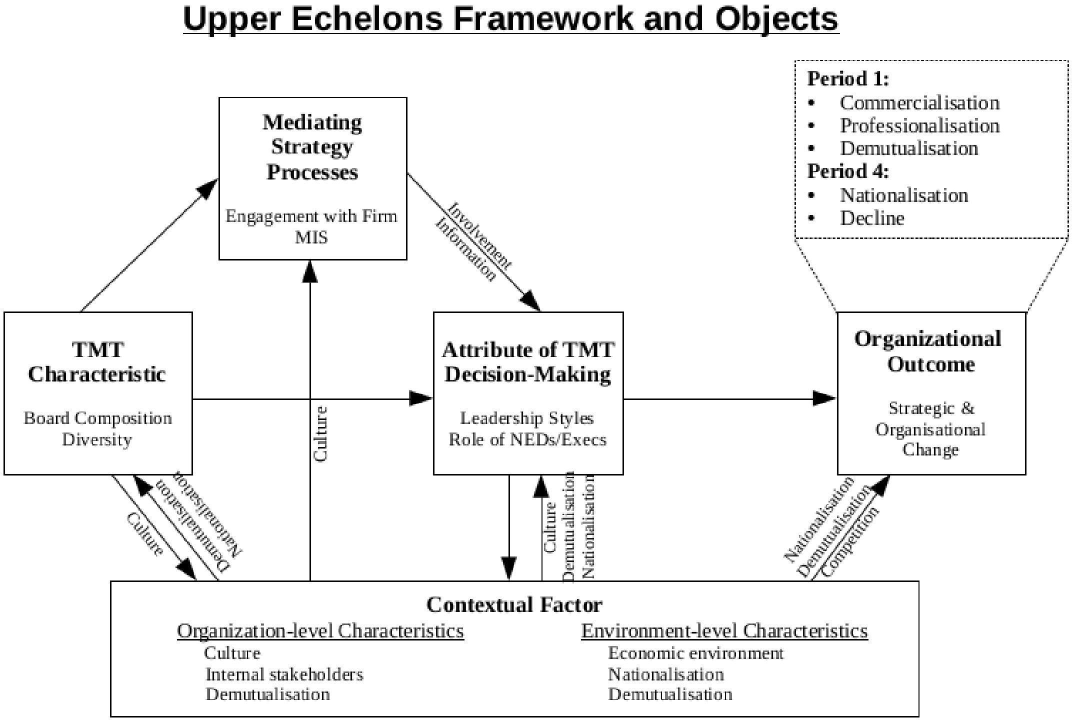
6.2 Application of the Constructs of the Upper Echelons Perspective

Corporate governance research is often founded in the assumptions of agency theory (Daily et al., 2003). It is often based on archival data (Shleifer & Vishny, 1997), or limited to quantitative research counting board size, or how often a particular subcommittee meets (Huse, 2000). However, this leaves unanswered many questions of how the board actually works, such as how the board comes to a decision or which dynamics contribute to reaching a certain decision.

There is a large amount of literature on what boards do (Daily et al., 2003; Forbes & Milliken, 1999; Huse, 2000), however as Pye & Pettigrew (2005) point out, this literature tends to ignore that there is a large variety of types of firms and governance arrangements in existence. As described in the organisational life-cycle, firms go through a succession of stages, each stage having a unique set of circumstances that influence their governance. In addition to the organisational life-cycle, the corporate governance life-cycle then exhibits a different set of requirements for the board during each life-cycle stage. Thus, governance in the context of this framework is rarely studied (for example, Lynall, Golden, & Hillman, 2003).

Additionally, the increasing codification of corporate governance, not only in the UK but also elsewhere, has led to a homogenisation of board structures and composition, creating an impetus to study the substance of board processes (Nordberg & McNulty, 2013). Furthermore, the recent financial crisis has shown that firms with corporate governance arrangements that seem objectively sound, still fail, and that corporate governance mechanisms cannot prevent unethical activity by top management (Solomon, 2013). Thus board structure and substance do not necessarily go hand in hand (McNulty, Zattoni, & Douglas, 2013; Roberts, McNulty, & Stiles, 2005; Westphal & Graebner, 2010).

One such approach to study how governance actually works is the upper echelons perspective. While the early upper echelons research focused on measurable demographic factors in an attempt to explain organisational outcomes (see for example Hambrick, Cho, & Ming-Jer, 1996; Hambrick & Mason, 1984), more recent research has recognised that demographic factors, rather than affecting organisational outcomes directly, affect outcomes indirectly through formal and informal decision-making processes (see for example Carpenter & Reilly, 2006; Carpenter, 2005; Hambrick, Finkelstein, & Mooney, 2005). Carpenter & Reilly (2006) propose a construct, linking top management team characteristics, not demographics, with organisational outcomes through a multi-stage process as summarised below.



Adapted from: (Carpenter & Reilly, 2006)

Figure 6.1: Objects of Upper Echelons Perspective

As seen in Figure 6.1, top management team characteristics are linked through a multi-stage process to organisation outcomes. Organisational Outcome is the dependent variable in this study. The main aim of investigation of the present study is the organisational outcome for Bradford & Bingley between 1995 and 2010: the strategic and organisational change which took place in the building society/bank, in the context of the factors influencing, moderating, or preceding strategic and organisational change. Four factors of the upper echelons perspective are identified as influencing the change, namely its Contextual Factors, TMT Characteristics, Mediating Strategy Processes and Attributes of Decision-Making. These are defined below in general terms.

Contextual Factors: The context of the firm is an important factor to consider as external events and relationships can have substantial bearing on the internal working of the board and the decisions it takes (Pye & Pettigrew, 2005). In this study, and in line with Carpenter & Reilly (2006), *Context* is defined as "*variables that describe the organisational and environmental circumstances*" of the firm. These circumstances can act as moderators of effects between the other variables or as antecedents to a variable or construct. Therefore context is divided into organisation-level characteristics and environment-level characteristics.

Organisation-level characteristics: These characteristics are internal to the organisation. In this study three factors are considered. First, internal stakeholders, in particular building society members and employees, though only pertinent prior to demutualisation, are considered to be an antecedent/moderator factor. Members and employees, through annual general meetings or branch visits are able to relay information to the top management team. Similarly, by voting at AGMs, members are able to express their opinions regarding the firm and its strategy. These expressions, when taken up by management, thus form a possible moderator or antecedent to whichever decision it relates to.

Second, organisational culture, is a moderator to TMT Characteristics through board composition and board chemistry, as well as a moderator to the Mediating Strategy Process by defining the tone and desired level of engagement with the firm, especially of NEDs. Furthermore, organisational culture is also linked with Attributes of Decision-Making Processes, again through the tone and common ethos of the board.

Third, demutualisation, is an antecedent factor. Demutualisation is internal to the firm as only its members have the power to vote on demutualisation. It is an antecedent factor as this event marks a turning point, fundamentally changing the purpose and strategic opportunities of the firm.

Environment-level Characteristics: These characteristics are external to the organisation and out of its control. In particular three characteristics are considered in this study.

The first characteristic is the wider economic environment and market conditions. The economy, as well as the particular market in which the firm is active, are considered moderators on the choices and decisions directors take. For example, as seen in Section 5.4.1, the competitive environment created very low margins in the prime mortgage lending market, thus influencing the strategic considerations of the board.

The second characteristic, an antecedent, is nationalisation in 2008. Again, as demutualisation before, nationalisation fundamentally changed the strategic and economic outlook and opportunities of the firm, without direct influence, at the point of nationalisation, by the board. It is thus an antecedent to decisions taken after the event.

The third and final characteristic is again demutualisation, however defined as the demutualisation environment, that is, the demutualisation of competitors and the resulting pressures on the firm to follow the path of its competitors. Hence the 'demutualisation environment' is considered to be a moderator on TMT Characteristic, Attributes of TMT Decision-Making, and Organisational Outcome, mainly by creating a less structured and pressured environment. Hence, demutualisation plays a dual role depending on whether demutualisation is an internal or external process.

TMT Characteristics: TMT Characteristics are the attributes of individuals or groups that are influential in shaping firm outcomes. Thus this variable operates on two levels, on an individual director-level and on a TMT-Group level.

A few studies have attempted to investigate board processes using psychological characteristics and thus opening the ‘black box’ of governance. However, it has been acknowledged that access to, and participation of, executives in psychometric studies and experiments is rare, if not unheard of (Hambrick, 2007; Lawrence, 1997; Rost & Osterloh, 2010). This is even more true when researching financial institutions. These studies thus focus on proxies (MBA Students) (Rost & Osterloh, 2010) or use of archival data containing personality information (Peterson et al., 2003). Surveys (for example, Rutherford & Buchholtz, 2007) and observation (Maitlis, 2004) are other forms of data gathering methods used to glimpse inside the ‘black box’.

This study uses a combination of interview and archival data to generate insights into how board composition impacts on the other independent (Mediating Strategy Processes, Contextual Factors, TMT Decision-Making) and dependent variable (Organisational Outcome). Board composition as the overarching construct is broken down into individual and group level characteristics, in particular skills and knowledge of individual board members (the Knowledge Resource discussed in Chapter 5)

(Kaufman & Englander, 2005) as well as group level characteristics of board diversity, chemistry and turnover.

Note that these attributes are not demographic proxies. Though connections could be made between Demographic Proxies and TMT Characteristics, it is not required for the argument presented here, as the use of Demographic Proxies has been shown not to yield robust results (Dalton & Dalton, 2005); hence their exclusion.

To see why these specific attributes are considered in this research, it is helpful to reiterate the focus of Chapter 5. In this chapter, the changes in the three governance functions of strategy, resource, and monitoring over the different life-cycle stages are considered. Central to the execution of these governance functions, was the vision and evaluation of the circumstances in which the firm was at the respective time. Thus the collective evaluation of the needs of the firm, or analysis of a particular situation, is core to decision-making. In addition, the composition of the TMT in terms of skills, diversity and chemistry is central to how and what decisions were reached.

Finally, TMT Characteristics are not operating in a vacuum, but are moderated by contextual factors. As seen in Chapter 5 – Period 1, strategic considerations, influenced by an evaluation of the competitive environment and economic conditions, drove the choice of CEO in 1996. Similarly events such as demutualisation and nationalisation changed the required skills profile of board members. Lastly, the culture of the firm and board has the power to affect TMT Characteristics through the choice of board members that either fit in with the existing culture or deliberate choice of board members, such as the appointment of Christopher Rodrigues in 1996, which introduced a different culture to the board, with implications for board chemistry, turnover and future board composition.

Mediating Strategy Processes: TMT Characteristics do not necessarily directly affect Attributes of Decision-Making Processes. Decision-making may be mediated by intervening Strategy Processes instead. As much as board composition in terms of skills, diversity and chemistry affect decision-making directly, there are also intervening processes that can amplify or moderate the effect of TMT Characteristics. In particular, participation in planning processes, especially strategic planning (Stiles, 2001), but also the general level of engagement of non-executive directors with the firm, as well as the amount, speed, and complexity of presentation of data can all have a bearing on how and what decisions are taken (Pettigrew & McNulty, 1995).

In addition, Mediating Strategy Processes are affected by the firm's prevalent culture. The culture could inhibit or encourage participation in planning processes or general engagement with the firm and foster or discourage information sharing between executives and non-executives. The effect of culture is also felt indirectly through TMT Characteristics, being transmitted through board composition and chemistry.

Attributes of Decision-Making Processes: The focus on Attributes of Decision-Making Processes is on CEO and Chairman leadership styles. The leadership of the board and executive team is very important in shaping firm outcomes (Maitlis, 2004). The relationship between CEO and Chairman (Roberts & Stiles, 1999), as well as their style of conducting the board are fundamental to success (Gabrielsson et al., 2007; Leblanc, 2005).

Leadership styles however do not operate in a vacuum but are moderated by and moderate other variables. For example, it is conceivable that the CEO's leadership style will have a moderating impact on the board's engagement with the firm and in the planning process. Similarly, leadership style is influenced by the (non-)executive's personality and chemistry with the board (TMT Characteristic) as well as Contextual Factors. Specifically company culture can set the tone of conduct on board level and as such may moderate the leadership style of the (non-) executive director. Having defined the constructs of the upper echelons perspective, the next section discusses the application of these constructs to the Period 1995 – 2004.

6.3 Period 1: 1995 – 2004

This section will present the perceptions and experiences of board members of Bradford & Bingley during Period 1. In particular, the focus is on reporting and analysing the information gathered through interviews and other sources; presenting it within the framework of the upper echelons theory as discussed in Section 6.2.

6.3.1 Contextual Factors

The section focuses on two contextual factors that have not been explored in detail in the previous chapter, namely company culture and external environmental pressures. Culture, as an influential construct in governance, has hitherto not played a significant role in corporate governance research. However, during the interviews, the importance of company culture was frequently mentioned. Culture thus provided an underlying basis defining norms of behaviour on the board, as well as providing a set of shared values of what the company stands for. In that, it was cited as an influential factor in decision-making. Hence, first, the change of culture between 1995 and 2004 is discussed in detail, focusing on two aspects in particular: cultural change after 1996 with the arrival of Rodrigues and cultural change in the early 2000s as a result of demutualisation. Then external environmental pressures are discussed, in particular the perception of these by directors and any felt impacts on the board.

Culture: As already discussed briefly in Chapter 5, in 1995 Bradford & Bingley was a *"cosy Yorkshire"* mutual which had *"done the same things the same way for a long long time"* [1]. The culture of the board and company at the time was described as club-like, where one had to be inducted into the Building Society's 'way of life'[2]. Other adjectives used by interviewees in this context were 'old fashioned', 'sheltered from competition', 'benevolent dictatorship', and 'traditional', as well as more positive ones such as 'caring', 'strong ethics' and 'not hire-and-fire'. Overall though this underlines the static nature of the company and its structures.

1 Director X

2 Director Z

Lindsay Mackinlay, Chairman since 1995, however understood that the culture of the firm and the board were unsuitable for the new commercial reality facing it. Financial deregulation in 1986 had increased competition in the financial sector and opened up the firm's traditional domain of mortgage lending and savings to commercial banks. As a consequence, Building Societies lost their predominance in attracting savings, which, by statute, had to fund at least 75 percent of all their mortgage lending. Bradford & Bingley was thus faced with increasing competition within its core markets by other Building Societies as well as commercial banks and other new mortgage lenders such as Kensington. The old culture of the firm, its static aspects and traditional routines were thus no longer deemed suitable for the new commercial reality facing the firm.

This transition to becoming a more commercial and professional organisation (the organisational outcomes of Period 1) was not without difficulties though. While some of the decision-making structures, for example the inclusion of chief decision makers on the board apart from the CEO, was already in the process of reform in 1996 when Christopher Rodrigues arrived, the task of cultural and structural change fell to the new CEO. As discussed in Chapter 4, Period 1, Rodrigues sought to professionalise structures and commercialise the firm to enhance overall performance in line with the chairman's goal. Part of this performance enhancement was the strategic repositioning of the Society away from selling prime mortgages into specialised lending areas such as buy-to-let and self-certified mortgages through the purchase of Mortgage Express where margins are higher, as well as expanding into independent financial advice and estate agencies by purchasing John Charcol independent financial advisers and Black Horse Estate Agents respectively. However, expanding into new business areas beyond prime mortgage lending did not only satisfy the strategic needs of the firm, but also served as a catalyst to change the firm's culture as exemplified in this quote:

> *"When you get people in place, a team in place, then you start to motor. Why did we buy John Charcol? Because it changed the culture. We were trying to broker, they were fantastic mortgage brokers, …, Charcol Management got broking. We did not have anyone who got broking, so … we were going to change the culture and the Board, …, but if the culture was 'we are going to*

be both a manufacturer and retailer' and our retail positioning was a broking position, you needed to inject cultural change."

Director X

Thus, changing culture was central to changing the firm. However, during interviews, a divergent view on what culture is and its role emerged. While demutualisation, according to one interviewee, did not play a significant role in influencing or changing culture[3], others disagreed with that assessment arguing instead that demutualisation did have an impact on culture by enforcing the need to change culture in a plc environment.

"on the day about a week after the vote to demutualise, one of the big questions was the culture, you know the whole organisation was defending mutuality. And we lost. And so we had to get the organisation to turn round…"

Director X

Similarly to the differences expressed on the impact of demutualisation on culture, the role of acquisitions of businesses in changing company culture is also contested. As already discussed above, acquisitions of businesses were not only done for strategic reasons, but also as catalysts to change company culture. However, some interviewees were not in agreement regarding the effect these acquisitions ultimately had on culture. While it was agreed that these new businesses did have a different culture and a different way of operating[4], they were not perceived to change culture as they remained largely independent organisations with their own offices. Attempts at integration were described as limited to common conferences and reward structures[5].

Thus, the only impact on culture that was generally agreed upon was through the tone set by key decision-makers on the board. Of particular importance seemed to be

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3 Director A

4 Director D

5 Director A

the Chairman and Vice-Chairman, who were credited for setting the ethos of the firm. During the late 1990s when Lindsay Mackinlay and Trevor Lewis were heading the board, stewardship of the business was the guiding principle of governance and culture.

> *"The culture that the Chairman brought to the Board, Trevor Lewis and Lindsey McKinley, the Vice Chair and the Chair, absolutely set the tone of the Mutual that it was. We were stewards of the business and becoming more commercial was what we had to do as stewards, not what we had to do because we were going to get big bonuses or profit, [or] share options."*
>
> *Director X*

Furthermore, the same interviewee explained that this stewardship was not practised in a vacuum, but for a purpose:

> *"You are governing on behalf of someone. Boards are stewards of a business - they don't own the business unless it is a private company, they are stewards of the business"*

While this discussion raises doubts on the success of inducing cultural change through acquisitions in Bradford & Bingley, culture is recognised as central to operating a financial services business, as the importance of stewardship and ethics to top management team members shows. The last aspect of note is the impact of leadership on culture and the role played by the Chairman and Chief Executive in setting the tone and defining culture. Thus the discussion turns to top management team composition and leadership next.

External Environment: In addition to what was discussed in Section 5.3, this section will look at the external pressures perceived by directors of Bradford & Bingley. In particular, pressure from stakeholders in the City were repeatedly commented on. The share price as well as profits and asset growth were the main items pushed by city analysts. Prior to demutualisation, the society's goal was to grow assets and its surplus in relation to other societies, however the pressure to grow its assets were much less than they were post-demutualisation[6]. Post-demutualisation, the share price as well as dividends became a focal point of attention of shareholders. A number of interviewees commented in particular on the perceived constant comparison of Bradford & Bingley to Northern Rock – then the star of the financial markets[7]. This focus on Northern Rock directly influenced board discussion, as the success and means of success of Northern Rock were frequently argued about[8]. However, the board during Period 1 was very resistant to give in to the pressures of shareholders. In particular, the board was against softening credit criteria as it was seen as unprofitable and involved excessive risk.

> *"I remember the Board meeting at which we had a discussion about why we were being badmouthed in the market by the analysts because we weren't as interesting and exciting as Northern Rock, and … I said 'I don't know how to lend money at 125%', and … the Board said 'nor do we' … but we got a lot of stick from the analysts … but certainly back then all they wanted was growth … we believe the risk profile [of lending at 125%] is unsustainable."*
>
> *Director X*

The intense focus and pressure on share price did contribute to some of the decisions the board took, such as the move into acquiring third party mortgages in order to supplement organic growth[9]. Another interviewee also commented on the importance of the share price to Rodrigues, perceiving some of the reactions to a changing share price as *"knee jerked"* [10].

Besides the importance of the share price to stakeholders and management, several interviewees highlighted their believe in the importance of protecting customers and customer funds over the share price[11]. In particular, Director A argued that the customer

6 Director A

7 Director X

8 Director A

9 Director C

10 Director D

11 Director D

has to be the focus, as only when management looks after its customers, it looks after its shareholders[12].

6.3.2 Board Composition

Cultural change is not only achieved through alterations of the tone from the top and new business objectives, as discussed in Chapter 5 – Section 5.4.2, but also via an accompanying change of personnel on board level. Thus, just as there was cultural change, the board experienced significant changes as well. In Chapter 5 the general changes on the board of directors during Period 1 were discussed, focusing on structural changes of personnel and skill. In contrast, this section concentrates on the impact of these personnel changes on board chemistry and diversity and how these changes are reflected in how the board worked as a team during this period.

Board change was necessary in 1995. Until then only Lindsay Mackinlay had any financial expertise on the board and it was not until that time that a second non-executive director with financial knowledge joined in the person of Mark Smith. In general, board members were not experienced in financial matters, at least not to a degree expected of a financial institution. Nevertheless they were described as being financially astute[13] due to non-executive directors generally being, or having been, executives elsewhere. In addition, it could be argued that this lack of detailed financial knowledge did not constitute a major disadvantage to small and medium-sized Building Societies due to the limited and prescriptive nature of legally permitted business activities and their comparably small balance sheets. Business activities were limited to taking savings deposits and lending these as prime mortgages, additionally, until 1997, savings had to cover at least 75 percent of outstanding mortgage balances. Furthermore, until 1983 the Building Societies Association ran an interest rate cartel, effectively eliminating competition in the mortgage market. Given this historic background the demand on the financial expertise of non-executive board members is limited and should be expected to be reflected in board composition.

12 Director A

13 Director Z

With the demise of the interest rate cartel and legal changes permitting a greater variety of activities, demands on the skills and expertise of directors necessarily increased. In the case of Bradford & Bingley, business activities outside the traditional domain included housing association finance, commercial lending, and an ill-fated attempt at diversification in entering the German mortgage market in the early 1990s. Following this prelude, the demands on the board grew dramatically under the reign of Christopher Rodrigues. Furthermore, as discussed in Section 5.4.1, the firm's strategy and business areas transformed significantly between 1996 and 2003 and consequently so did the demands on the board. Besides this expansion of business areas, another driver of demand on board skills was the new CEO's drive to commercialise and professionalise the firm. He deemed this step vital to the survival of the firm in the new competitive environment.

Thus Rodrigues deliberately re-engineered the senior management team to form a group of people which support him. As one interviewee explained: *"It is difficult for a new CEO with new ideas to rely on the old executive team"* [14]. Again, as already noted in the previous chapter, board turnover happened in two phases. The first phase saw turnover on the executive side of the board with the CEO introducing new executives that would support him in his vision. The second phase, after conversion to plc status, saw non-executive directors coming to the end of their tenure and being replaced by experienced plc directors.

Executive Directors: Besides the appointment of Christopher Rodrigues, which was described as a 'change catalyst', the second key appointment to the executive team was Rosemary Thorne. Thorne joined from Sainsbury's Finance to replace John A W Smith in 1999, due to her experience in retailing financial services and Bradford & Bingley's move into retailing a variety of financial services since 1997. She was described as fitting into the senior executive team, in particular, she was seen as 'knowledgeable but not revolutionary' and as a 'good auditor who brought in her own ideas'[15]. Furthermore, she saw management controls as important and was not seen as 'a spreads person', hence being seen as 'on top of treasury (function)' [16]. Overall, the

14 Director D

15 Director D

16 Director X

comments create the impression that she was someone who was steady, 'not rocking the boat', and thus not only fitting in with the existing building society culture but additionally coming with plc experience. She was the key appointment in the executive team as the Financial Director is the key person the CEO needs in support of executing his vision as well as acting as a counterweight to him[17]. Other executives joining the board in the late 1990s were David Woodcock with the acquisition of Black Horse Estate Agency, who was described as *'having a different way of working due to being an estate agent'* [18], and Keith Greenough who joined Bradford & Bingley in 1997 with the acquisition of Mortgage Express and promoted to the board in 2000, who was seen as a *'very able administrator who understood his business'* [19]. Keith Greenough, with his experience in non-primary mortgage markets, occupied the position of Director of Lending & Savings, thus being responsible to implement the banks new strategy of expanding in niche markets such as buy-to-let and self-certified lending.

Figure 6.2 below further underlines the nature of change on the executive side of the board, again, highlighting sentiments expressed by interviewees, namely that the chief executive wants to form a team that he can trust and work with[20], and that the senior executive team was re-engineered deliberately to introduce *'new blood'* and *'new thinking'* as it is difficult to rely on the old executive team for new ideas[21] - which Rodrigues was certainly introducing. The turnover on key senior management positions, particularly Finance and Operations, is thus a consequence of the need for trust and support between key executives and the chief executive. Telling in this context is a comment made by one interviewee: *"about six months in [after Rodrigues arrived] … we had a [board] meeting and … [asked Rodrigues]: 'what do you think after six months in, what do you think?' and … [he] said: 'we have got a very good, broadly speaking, we have got very good staff but the senior management needs to change' and it was a real moment of truth because some … thought that … [he] would say exactly*

17 Director C

18 Director D

19 Director D

20 Director Z

21 Director D

the opposite and … [the] issue was leadership not followership." [22] Thus in changing the board the new chief executive pursued a number of goals: first, to introduce executives that he could work with and would support his vision, second, to align the skills and experiences of the executive team with the requirements of his desired strategy, and, third, to introduce cultural change from the top.

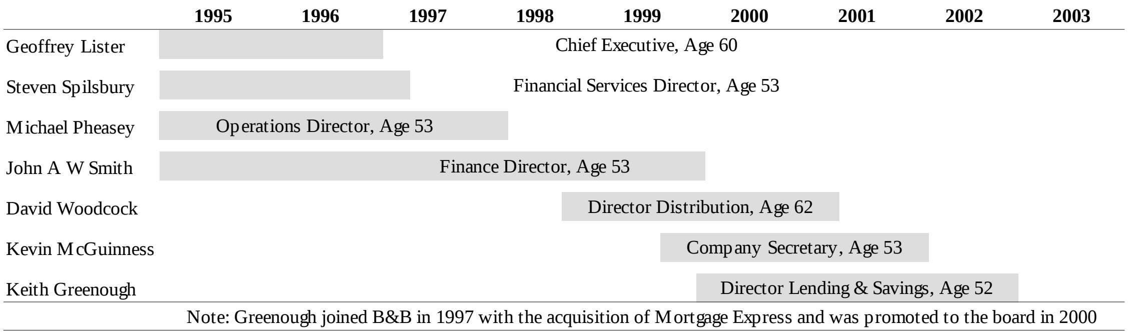


Figure 6.2: Outgoing Executive Directors (1996 – 2003)

However, not all hirings worked out and some directors left voluntarily. Kevin McGuinness, long-running Company Secretary and working for the society since 1964, was promoted to the board during demutualisation and left the firm at the end of February 2002 as it was developing in a direction that he was not comfortable with[23]. Instead he choose to remain in the mutual sector by joining Darlington Building Society as a non-executive director. The year 2002 was also a turning point for the non-executive side of the board with a large number of retirements.

Non-Executive Directors: As discussed in Chapter 5 Section 5.4.2, board turnover on the non-executive side of the board was driven by age and tenure with all directors retiring in their mid-sixties after seven to thirteen years of service. Thus, having reached retirement age as well as the maximum recommended length of service, a large amount of turnover was inevitable. While demutualisation did not have as immediate an effect on Non Executive Director (NED) board composition as it did on the executive team, the recruitment of Nicholas Cosh and George Cox were already reflecting the change of incorporation status. Nevertheless it was recognised that the board needed a refresh for

22 Director X

23 Director D

the plc environment and the year 2002/2003 provided the opportunity to do so with five retirements[24].

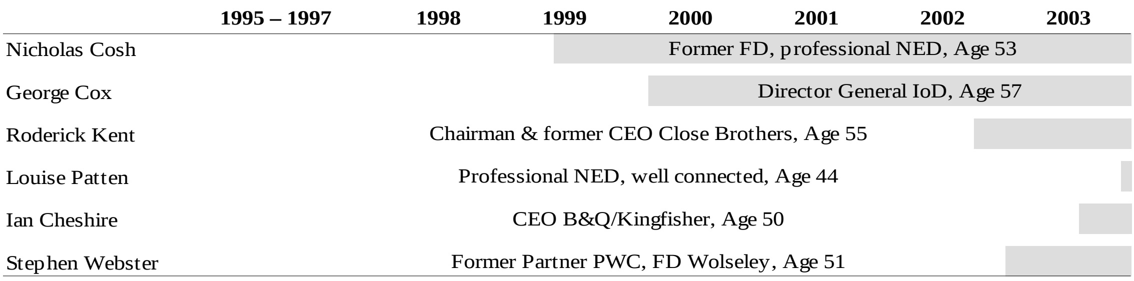


Figure 6.3: Incoming Non-executive Directors (1995 – 2003)

It is undisputed that the incoming non-executive directors were very experienced and thus their contribution to decision-making should be significant. However, despite new NEDs putting up challenges to existing procedures and strategies, they did not challenge the fundamental tenets of the firm's strategy[25]. Director C further remarked that by 2003 *"I remember looking to see who the Board was going to be and what parts of the past they might represent and it was only Trevor Lewis who was still on the Board … from the days of the Building Society"*, and the inherent loss of knowledge and heritage of the firm:

> *"I do remember thinking, … is it right to give a completely new set of people control over a business which is important and big, with lots of responsibilities as a business, or should there still be elements from the past who can put up their hand and say, 'look, you know, this is not how we would have done it five years ago, or eight years ago'. I remember having that thought."*

By that time, the only person on the board with significant tenure during the building society's years was Rodrigues, who was never seen as a building society man and indeed was questioned about his commitment to mutuality[26]. Others who had joined prior to demutualisation were Rosemary Thorne (joined in 1999) and Nicholas Cosh (1999), however they only spent one year on the society's board before the

24 Director D

25 Director C

26 *Heading for clear waters*, Mortgage Finance, Jan. 1997, pp. 18-19, Hugh Thompson

conversion. Interestingly, at the same time as the director expressed his doubts about the board and its suitability to be running the bank, Director C welcomed newer members joining the board as they provided *"a feeling of relief that there was someone in their 50's, or maybe even in their 40's, … rather than somebody in their 60's … with a fresher more recent outlook"*.

The ambivalence expressed in these quotes is of interest insofar as it demonstrates the opposing forces working on board composition leading to a loss of existing knowledge of the firm, while introducing new knowledge and experiences that are important and relevant for future success. All the same, the notion of having to let go and pass the firm into a different set of hands is very strong and exposes a close relationship, maybe even personal relationship, between the director and the firm. It also expresses doubt that the new leadership is as capable and respectful of the heritage as the past leadership.

In summary, between 1997 and 2004, the board had been transformed dramatically, transitioning from a board suited to a mutual organisation to a board suited to a plc organisation. One interviewee expressed this suitability in explaining that by 2004 the board was equipped with the skills to be able to deal with technology issues, as well as business model issues, especially the move into retailing financial services. The following section will detail how board diversity changed as a result of changes to board composition.

Diversity: The personnel turnover on the top management team led to a change of experience and background, however this did not have impact on diversity in general. Despite a trend to introduce younger directors in the early 2000s, the board consisted of middle-aged white males with, at most two women (Rosemary Thorne and Diana Courtney/Louise Patten)[27]. Interestingly, the white middle-aged male interviewees perceived the board as being diverse nevertheless, and tied diversity not to gender, social class, or age, but to occupational background and geographical origin[28]. By these measures the board actually became less diverse in terms of occupational background and more diverse in terms of geographical origin. As already discussed in Section 5.4.2,

27 See Section 5.4.2 for discussion

28 Director A

and depicted in D.1 (Appendix D, page 251), since the 1990s the board became increasingly staffed by business experts, that is, directors with a background in financial services. The increasing number of business experts was driven by the need of the firm to have a professional and competent management (though it still got into trouble) that has the ability to understand the increasingly complex organisation and financial markets and to satisfy FSA demands in terms of knowledge and expertise available on the board. The need to have more business experts on the board directly led to an increase in geographical diversity in that the desired skills and experience was not available locally in Bradford or Yorkshire[29]. The geographical expansion of business operations also played a role in the board becoming less populated by local directors, but the skills requirements were the driving factor.

While age was generally not a concern for interviewees[30], the top management team's average age decreased significantly in the 2002/2003 turnover and even further after that. Figure E.1 (Appendix, page 252) shows the decline in average age, which was especially pronounced for executive directors. While age was not seen as important, interviewees acknowledged that there is an age-experience correlation and that, by definition, there is an impact of age on experience and thus on the board and the available expertise for decision-making[31].

In summary, despite the changes on the board, it was striking that most interviewees stated that the impact of board turnover on the dynamics on the board was negligible or non-existent. While for example Director C stated that *"there was a feeling of relief of younger members joining"* and Director X remarking that *"every time you change a board member you change the dynamic on the board"*, others had a much different view. For example Director D thought that decision-making had been remarkably stable throughout the years and that there was no particular impact of turnover, with the exception of the arrival of Rodrigues. That same director also saw board turnover as a *"double-edged sword"* and that either too little or too much of it is a handicap. What remains is that the building society was set to change after 1996 and that with demutualisation in 2000 it had to adapt to the new realities of a plc environment,

29 Director A

30 Director Z

31 Director Z

whether directors looked back at the 'old days with sadness' or not. That decision-making is at the very least impacted by key figures on the board will be seen in the TMT Decision-Making section further down.

6.3.3 Mediating Strategy Processes

Engagement with the Firm: A further component of decision-making and board interaction, as well as being affected by the overall chemistry on the board, is each director's engagement with the firm as well as their access to vital information for decision-making. In terms of engagement with the firm, a variety of levels of engagement can be observed, and indeed, differences of opinion about this engagement. An interesting case is the evaluation of engagement of Lindsay Mackinlay. Mackinlay, being the chairman, spent time attending executive committee meetings. This was in order to stay informed of the ongoing discussions on the executive side of the board to be in a better position to evaluate the proposals that are eventually put forward on full board meetings. Thus one could conclude that the director was well engaged with the firm. Director X however described Mackinlay as *"being more arms length"* and spoke of *"having to reach out to him"*. Similarly Director D described some directors as *"remote"* and *"not people's people"*. This further contrasts with Director A who stated that with Lindsay Mackinlay becoming chairman, the board team became more involved in the firm and had a closer relationship to the executive members of the board. The perception of engagement with the firm is thus very different between different members of the top management team and raises questions on what influences these views or perceptions.

Trevor Lewis, vice-chairman 1995 – 2003, was seen to demonstrate a high level of engagement with the firm. He spent much time engaging with staff of all levels to understand the dynamics of the business. It was said that he spent much time conducting branch visits and talking to staff. The information gathered on these occasions would then inform decision-making on the board as, on occasion, it emerged that some policies pursued by top management created problems and were not as effective as they were believed to be[32]. Additionally, he would conduct regular 1-on-1 meetings with executive directors to discuss how the business was doing. However, this

32 Director A

level of involvement with the firm comes close to the fine line separating non-executive and executive directors[33], especially considering Lewis' involvement with the Asset and Liability Oversight Committee (ALCO) until demutualisation.

Board involvement with the business, besides the examples above, increased over time, as evidenced by a number of interviewees specifically stating this, for example, Director A[34]. Of interest here is how directors engage with the firm outside the framework of regular board meetings, that is, what happens between these events that potentially shapes outcomes. In addition, what strikes as important in the interviews is the issue of time and engagement. Non-executive directors thought that having the time to immerse themselves in what is to be discussed at the board meeting is very important to being able to contribute constructively[35]. The pressure on time commitment did not only relate to having the right information on time, but also pressures from external jobs NEDs might hold, either through a number of directorships or by being in full time employment elsewhere. On Bradford & Bingley's board, both cases are present. For example Cheshire and Cox had significant day jobs at Kingfisher and Institute of Directors (IoD) respectively, while Patten and Kent had a number of other director- and chairmanships. Lewis on the other hand primarily focused on Bradford & Bingley and thus was able to commit more time to his job as vice-chairman. Thus as Director D pointed out, it was difficult to do the NED role well, that is, to commit the time and intellect required to make good decision and contribute constructively.

Director A further remarked that getting involved in the business is very rewarding as one's contribution at board meetings can be related to what is happening on the front line of the business. It also increases the quality of oversight as one has more first-hand information than would otherwise be available through board papers alone. Similarly, Director X concluded that direct engagement with the firm through site visits provides information on what is important to a variety of stakeholders, for example, customers and staff, and thus on what management should be focusing its time and efforts. On a

33 Director Z

34 *"I think on the whole the non-executive team ... probably [had] a closer relationship [with the executive team], certainly in terms of how the business was being run between the non-execs and the execs, … that changed from a very small close knit [executive] team."*

35 Director Z

board level, Director X judged that board engagement had increased over time and moved away from being remote from the business. Furthermore, until the mid-1990s, the society was run by a small, close knit team headed by the managing director and senior managers. The managing director was the only executive on the board and would control the flow of information to the board. Lindsay Mackinlay first pushed for other senior managers to be elevated to full executives on the board in order to reduce the power of the managing director[36]. Again, during the building society era strategy was also not high on the agenda due to the rigid regulatory framework and thus the focus was more on supervision of day-to-day operations, rather than engaging in long term planning and strategy. With the arrival of Rodrigues this changed as non-executives had to necessarily engage with the ideas proposed by the new CEO on how to reform the society[37]. The increased pressure of decision-making on strategy had beneficial effects on board involvement in decisions. The focus of NEDs thus shifted from supervision to considering strategic and long term issues affecting the firm. NEDs were not the only ones increasing their time spent on strategic issues as Rodrigues also spent substantial time on longer term issues. According to Director X, Rodrigues spent approximately a third of his time on these.

This involvement and time commitment is not limited to length and frequency of attendance at board meetings, but includes time spent discussing issues informally with colleagues. On the executive side, the engagement of the Finance Director, Operations Director and Head of Strategy by the CEO in discussing and deciding on the future direction of the business is important[38]. However, it was seen as equally important to reach out to NEDs to build their understanding of and commitment to a strategy, and to get a sense of their thinking of, and possible objections to, new ideas before they are fully developed[39]. In this regard, informal discussions outside board and committee meetings formed an important building block of decision-making[40]. A lot of discussion

36 Director Z

37 Director X

38 Director X

39 Director X

40 Director A

also happened in private, especially concerning more radical ideas[41]. A further forum of discussion outside the actual board meeting was the board dinner the night before. While not necessarily all EDs would attend, key decision makers would join for informal discussions in a relaxed atmosphere[42]. Mackinlay's idea was to provide a forum to raise issues informally prior to the meeting and to help other NEDs to get a full understanding of the item to be discussed the next day. It was however stressed that discussions during board dinners would not pre-empt the board meeting[43].

Finally, the decision in 2002 to divide head offices between Bradford and London is also a mediating factor in decision-making processes. Director A explained that it was necessary to be closer to the city after demutualisation, in particular for the finance function. However, this created a split in the executive team working from two different locations and required more use of teleconferencing for board, committee and general meetings as well as more travel between London and Bradford for face-to-face meetings. The loss of ability to directly speak with colleagues was felt and made it more challenging to manage the division[44]. This was expressed in the difficulty of splitting and allocating time and attention between the two locations and groups. While it was insisted that there were no effects on decision-making in formal settings, possibly because board meetings were generally face-to-face, it would seem unlikely that this division did not have any impact on cohesion and decision-making of the top management team.

Management Information (Systems): Another factor influencing the level of engagement and the board's ability to make timely and good decisions is the quality and quantity of management information. Management information systems (MIS), their correct functioning and timely output are crucial in contributing relevant information to support board decisions. While interviewees deemed MIS at Bradford & Bingley to be generally acceptable[45], there was indication that changes and improvements were made

41 Director Z

42 Director Z

43 Director Z

44 Director A

45 Director A: "***Would you say then that the internal management information systems were appropriate for running the business?"*** "Yes I would."

over the years[46]. Yet, many interviewees expressed a sense of dissatisfaction with the information provided[47].

In the 1990s the focus of management information was on the written word, that is, board papers and the board was reliant on these in its decision-making[48]. In fact, during the monthly board meetings, executives had additional information interlined in their own packs in order to be prepared for possible questions by non-executive directors[49]. As earlier indicated, Lindsay Mackinlay and Trevor Lewis were both members of the ALCO and, additionally, Lewis spent a considerable amount of time ‘on the shop floor’; the behaviour of executives of interlining their papers with additional information as described above, coupled with Mackinlay’s and Lewis’ membership could be construed as a way of non-executives gathering additional information that would otherwise not be available to them through board papers. This is supported by Director Z who was in informal attendance at some of these meetings for the same reason.

In those days the amount of information available through the board papers was described as extensive[50] and voluminous[51]. Others looked at them differently and found them to be comprehensive[52] and varying over time with a peak during demutualisation[53]. The size of board packs was also criticised as the sheer amount of information was not always helpful in finding the relevant information to support or reject a specific proposal[54]. Furthermore, it was remarked that the large amount of available information may lead to a lack of understanding through difficulties in sense making[55]. The

46 Director X: “*There was a considerable improvement, … when Rosemary [Thorne] came on board …, she and the people she had did a pretty good job at improving the MI ….*”

47 Director A: “*I think later [MIS timeliness] had become something of a problem, ... but I know in later stages it was slightly behind the cuff. … I don't know to what extent that was remedied.*”

48 Director Z

49 Director A

50 Director C

51 Director Z

52 Director A

53 Director D

54 Director Z

55 Director D

increasing demands on the business, through expansion but also changes in financial markets, put further pressure on management systems. In terms of financial advances, the introduction of cost centres and more statistical details about customers as well as advances in the treasury function, for example, hedging and interest rate sensitivity, forced improvements in MIS[56]. The purchase of Mortgage Express, John Charcol and Black Horse Estate Agents, as well as previous acquisitions of other building societies increased the complexity and geographic dispersion of the business, contributing to making Management Information (MI) more time consuming and difficult to collate. Nevertheless, key business areas were reportedly able to generate management data within 8-9 days after month end[57]. The new business units such as Mortgage Express were all simple P&L businesses and as such were not very complex to integrate with the results of the main operations.

Not every director shared this assessment though, with both Director A and Z stating that MIS became less punctual. Similarly Director X explained that Finance Director (FD) Thorne, improved MIS and that end of year data was available within 10 - 12 working days. Nevertheless, Director Z found that during his tenure business reports of the previous week were generally available on a Monday morning and that, at least for these reports, the issue tended not to be timeliness but insufficient filtering of information, especially once the business had expanded through acquisitions. Arguing against this assessment was Director D, who found MIS to be timely and sufficient and that any delays were not detrimental to decision-making. Interestingly, the same interviewee complained that MIS in non-core areas were weak, and that there were particular problems with risk assessment. The weakness in risk assessment moved into focus after demutualisation due to environmental pressures. Moreover, the focus of risk assessment procedures was blamed on the consultants of the Big 4 accounting firms who were interested in selling their expertise in this area, to the detriment of risk identification[58]. It is remarkable that at least some members of the top management team were aware of this issue at the time, given that a distinct lack of risk identification (and possible understanding) could be seen as a contributing factor to the strategic

56 Director D

57 Director D

58 Director D

mistakes made by a different management team in Period 2 and 3 (2004 – 2008). Director Z further added that he thought the interpretation of data to be more crucial to the success of the business than the quality of available data.

In summary, despite improvements in generating management information, many directors had reservations about the timeliness and volume of this data and consequently found decision-making, if not impaired, doubtful as to whether the right data had been used in support of business decisions. The different perceptions of MIS by top management team members are also puzzling as all were speaking about the same period of time. This could possibly be explained by different personal expectations as to the appropriate time it takes to generate MI data. The final section in Period 1 will consider TMT Decision-Making and the influence board leader had as well as other directors influence during board meetings.

6.3.4 TMT Decision-Making

This section on TMT decision-making first explores interviewee perceptions and opinions about the personalities and styles of four key persons: Lindsay Mackinlay, Rod Kent, Christopher Rodrigues and Steven Crawshaw. In so doing, the differences in their personal styles and priorities will become apparent and inform the way the company developed under their tenure. It then, in more detail, explores the role of executive and non-executive directors on the board as well as within the committee structure of the firm, including the views of the role of the Chairman and Chief Executive, and their relationship with each other. Finally, the boardroom culture is discussed.

Leadership Styles

Lindsay Mackinlay: Even though he was seen as engaged with the business, he was seen as less interventionist and more arm’s length. Indeed, it was said that executive directors had to reach out to him to engage him in what was happening within the firm, and further, that Mackinlay would only come to the office periodically. This does partially align with his desire to give the executive team space to implement the board decisions[59]. Specifically, not being in the office frequently, or being in very

59 Director Z

frequent contact with key executive decision-makers does fit this desire. However, it does seem to clash with his role on the ALCO. Even though the role was described as purely observational, the sheer presence of him (and VC Lewis), as well as their official membership of the committee until 1999, got him involved in discussions ostensibly *"to give advice and feedback"* [60] and to gather information for the board. Understanding the discussions and reasoning underlying the board papers, and thus having a better grasp of the issues, was sought in order to improve the quality of discussion on the board. While there is an obvious element of engagement with the firm, it is a fine line between engagement and intervention, supervision and co-option, or to put in another context, between being a non-executive and executive chairman[61]. In addition, it was said that Mackinlay and Rodrigues had a close relationship and spent much time deliberating the future and strategy of the organisation.

Mackinlay was described as a consensus seeker and disliked confrontations. Occasional disagreements on the board were thus not welcomed by him and were expressed through his actions, specifically failing to shorten discussions by having a more steering role[62]. While this may have had a negative impact on the length of deliberations on the board, his approach did positively impact board cohesion and chemistry. In particular, it was reported that board members would call the chairman in case they had any queries, which suggests a level of trust and openness on the board resulting in a certain degree of cohesion. Another aspect of his approach to board leadership was the strong dislike for surprises during board meetings. The chairman saw it as important that everything that was to be discussed during a board meeting will have been raised before informally, with a view to creating the opportunity for meaningful discussion through preparation of participants. In a similar vein Mackinlay also sought to control the agenda of the board, thus reducing decision-making pressures, by limiting what Rodrigues could present to the board. Rodrigues, being an 'ideas man'[63], did have many ideas and Mackinlay saw it as important to limit the number of ideas coming to the board through bilateral discussions with Rodrigues to ensure that

60 Director Z

61 Director Z

62 Director C

63 Director D

ideas had been properly vetted and discussed in executive committees. This again links with the chairman's presence on the ALCO in that it would provide him with advance information regarding Rodrigues' ideas and a sense of the discussion of these, and, in particular, how advanced in the planning stage these ideas were.

The final element of Mackinlay's approach that aligns with his overall style and personality is caution and reflection. In seeking to further the consensus on the board, he valued reflection on failures to reach consensus as very important in advancing the board agenda. This introspective approach is also visible in his cautious treatment of new financial instruments. His limited knowledge of new financial instruments, for example securitisation, and knowledge of the building society roots of the firm influenced his attitude. During his tenure, Bradford & Bingley did not venture into complex financial instruments, though a securitisation vehicle was set up with the view to gaining experience in securitisation and to evaluate its future potential for the firm.

Christopher Rodrigues: Rodrigues was hired by Mackinlay in 1996 to change the Yorkshire mutual. At first Rodrigues felt frustrated that the existing building societies legislation was tying his hands in what he could do in terms of strategy and new business areas and hence found it difficult to adapt to the situation he found himself in. He was very different from his predecessor in style and attitude and, as discussed above in Section 5.4.2, some members of the executive team found it difficult to adapt to. One thing that stood out from the interviews with directors was their admiration of Rodrigues as possessing a strong personality with one interviewee even describing him as being a 'larger than life character'. Hence it is not surprising to see him being described as a good leader and motivator and being very charismatic.

Being a leader, Rodrigues fundamentally changed the way the executive decision-making structure worked. For example, he continued to push for the addition of executives to the board in their own right (for example the Company Secretary), thus elevating them from senior manager status. He also worked hard to get executives to participate in discussions on committee and board level and gave them more responsibility for their own departments. Part of the discussion culture was also the ability and expectation that executives would express their opinion and stand up for their ideas, and, that in the end, all participants agreed on the best course of action. This style was miles apart from the way the society had worked in the past, which was much more the way Mackinlay operated, that is consensus based. However, in contrast to Rodrigues and Mackinlay, decision-making before the mid-1990s was monopolised by a small group of managers around the general manager with non-executives only rubber-stamping the manager's proposals.

Rodrigues did not only 'work his executives hard' but also demanded more engagement from non-executives. In the very beginning, he reportedly did not appreciate the need to keep 'certain people' on board, as one interview put it[64]. Subsequently though he spent considerable effort in engaging the board to convince them of his ideas. One example of engaging the board and making it more open towards his ideas was through the use of strategy days which functioned as a sort of retreat with board dinners and consultants attending for presentation. The idea was to enable blue sky thinking and to have non-executive board members actively engaged in strategising and discussing the future of the firm[65]. In addition, Rodrigues spent considerable time and effort to prepare the board in advance of new proposals and ideas, and in particular, to gauge how receptive the chairman would be[66]. Given the strategic changes discussed in Chapter 5 – Period 1, his approach did bear fruits in leading strategic change.

While Rodrigues was successful in this regard, a number of interviewees made comments on a particular trait of his, being repeatedly called 'an ideas man'[67]. As was already discussed in Chapter 5 Section 5.4.2, one of the driving factors of the hiring of Rodrigues was his reputation for strategy and ideas. However, his style did impact the board, and in particular, non-executive directors. While generating a large number of ideas may be beneficial to the business in transition, it did have the consequence of overwhelming directors. In particular, Director Z stated that Rodrigues had to be 'reigned in' at times in order for the board to have sufficient time to study and discuss the ideas put forward. In addition to the concern about the ability to discuss any proposals in sufficient nature, ideas were sometimes presented prematurely, that is, the

64 Director D

65 Director D

66 Director Z

67 For example, Director Z and Director D

proposal was not quite ready to be evaluated by the full board and consequently rejected[68]. It further manifested itself in a tendency to be working close to a deadline, and thus giving limited time to NEDs to consider the merit of the proposal prior to a board meeting. The quick flow of ideas within a short time frame also meant that, besides having to be slowed down[69], that ideas were not always followed through and he moved on quickly to a new idea[70], discarding the old, thus potentially creating a lack of consistency in direction and shortness of attention to any particular proposal or initiative[71]. Reportedly, Rodrigues was not always happy not being allowed to present his ideas to the board[72]. Overall, his style had the effect of increasing the work-load on NEDs[73] due to the need to be more engaged with the firm in order to evaluate the output of the executive team.

Rod Kent and Steven Crawshaw had a relatively limited role in executive positions during Period 1. Thus, the discussion is brief with a view of outlining the differences to Mackinlay and Rodrigues respectively.

Rod Kent and Steven Crawshaw: Kent joined Bradford & Bingley from Close Bros in early 2003 to replace Lindsay Mackinlay as Chairman. Coming from a commercial banking background his style and demeanour are very different compared to his predecessor[74]. This background shaped his view of the business, in particular his dislike for retailing financial services[75]. However, despite this dislike, he did not push for a change of strategy while Rodrigues was chief executive; a sign, perhaps, of the influence and power of Rodrigues[76]. Only with the elevation of Crawshaw to CEO in

68 Director A

69 Director D

70 Director D

71 *The chief executive with a taste for the unpredictable*, The Independent, November 1, 2000; Andrew Garfield

72 Director Z

73 Director D

74 Director A

75 Director X

76 *"With Christopher still there I would be surprised if that was going to happen unless the two of them wanted to do it, if the two of them wanted to do it then there was a good chance that it was going to happen if the rest of the Board agreed."* Director C

March 2004 a comprehensive change of strategy, including the move away from retailing financial services, was instituted. In the meantime, he was described as being much more driving and interventionist in his interpretation of his role as Chairman, that is, he would steer and drive board debate in the direction of his ideas to a much greater extend than Mackinlay did. In particular *"Rod … was more authoritative and … would stop discussion … for different reason than Lindsay would have done"* [77] and *"[thought] he could stop the board from discussing something if he thought this was the right thing to do"* [78].

In addition, Kent spent considerably more time in the London office of Bradford & Bingley than his predecessor, as he was using the office as a base for his other director- and chairmanships. This allowed him to be much more involved on a day-to-day basis, and thus more interventionist; though Director X denied that his presence and greater involvement was unpleasant in any way. However, his style and demeanour was not well liked all round with Director C stating that: *"Both of them [Rod Kent and George Cox] seemed to be a little bit above the rest, or saw themselves as above other people. … I don't think of either of them as a friend, but as a board colleague, perfectly sound and good."* Overall, Kent would seem to be a more divisive figure than Mackinlay, drawing a number of negative comments about his personality and style. He would be joined by Crawshaw in 2004 to lead the firm until nationalisation in 2008.

Steven Crawshaw joined Bradford & Bingley in 1999 as Flotation Director and subsequently rose through the ranks as Director of Strategy, working closely with Rodrigues, and finally being promoted to the board in 2002. When joining B&B Crawshaw had limited experience in executive positions[79], though through being the personal assistant of Andrew Longhurst at Lloyd's TSB he was exposed to the demands and role of an executive director. Interviewees described him as 'a good all round guy'[80], 'presentable, articulate and nice guy'[81]. While not being considered chief executive material when joining, he had the background and experience that was

77 Director C

78 Director C

79 Director A

80 Director C

81 Director D

desirable for a future executive[82]. His rise within Bradford & Bingley to take on a variety of roles in strategy, HR, IT, as well as lending and savings exposed him to key business areas and was done so deliberately in order to gain more experience and understanding of the B&B business in preparation of such a move[83]. Rodrigues' move to Visa in 2004 came as a surprise and, left Bradford & Bingley without a chief executive. The board chose to promote Crawshaw to the post, perhaps prematurely[84] considering his limited executive experience. While Rodrigues drew many comments about his style and generally was deemed to a demanding leader that received respect from fellow top management team members, Crawshaw was generally seen as 'a nice guy'; no comments were made labelling him as a leader or commanding respect.

Board Roles

Role of the Chairman: Interviewees rejected the notion that the chairman acted as a mediator during board meetings[85] in the sense that they did not see the need to mediate any disputes as they were non-existent. However, in a broader sense of being a mediator, the chairman had to mediate and guide the decision-making process to come to a timely decision. Here the personality of the chairman is central to influencing this process[86]. Lindsay Mackinlay was seen as being more consensual[87] and gentle[88] compared to Rod Kent, his successor, who was more forceful and ready to guide the discussion in the direction he believed it should go[89]. Director Z described the chairman's job as knowing the 'board's opinion' and thus eliminating the need for formal votes. Knowing the board's opinion and knowing and understanding the process on the executive side that led to certain proposals was also seen as 'a full time job, not part time'. Thus Mackinlay's attendance at ALCO meetings supported him in being

82 Director X

83 Director A

84 Director X

85 Director D

86 Director C

87 Director Z

88 Director X

89 Director C

aware of the different opinions on the executive side, just as board dinners would offer the opportunity to gather information on opinions on the non-executive side of the board.

Role of the Chief Executive: The key task of the chief executive is to lead the company and be accountable for the outcome[90]. In leading the company, the main task is to develop the strategy with input and consent by the board[91]. Communicating this strategy effectively, and having the organisation share it, is thus key to the chief executive's success. An example of this is the strategic reorientation of Bradford & Bingley after 1996 when Rodrigues formulated a new vision for the Society and then had to communicate this strategy, first to the board for approval, and then to the Society as a whole; to get employees to share the new direction. It was already discussed earlier in Section 5.4.2 that not everyone was happy with the new direction and that many people left the company as a result. However, as was explained by Director X: *"leaders are leaders to make difficult decisions, one does not need a leader for the easy decisions"*.

The Role of Group Committees: Before any proposals would be put forward for the whole board to consider, the General Management Board (GMB) or Group Executive Committee (ExCom) would discuss and vet executives' proposals. This 'inquisition'[92] of executives championing their proposal was made in order to ensure that the proposal put forward to the full board had sufficient substance to stand up to scrutiny. Besides deciding day-to-day management operations it also had formulation of strategy within its remit[93]. In addition to the GMB the Asset and Liability Oversight Committee (ALCO) is the second powerful committee within the 'executive branch' of the board. The ALCO is responsible for pricing decisions, balancing the books, risk assessment and identification and internal audit.

Role of the Finance Director: Besides the chairman, the key players on the board are the vice-chairman as well as the chief executive (CEO) and finance director. The

90 Director X

91 Director X

92 Director D

93 Director X

fifth important player is the Remuneration Committee Chair. In developing and implementing strategy, the FD and CEO are the driving force. However, the CEO would always need the support of the FD, without which any proposals would be rejected[94]. Thus the CEO would always seek to have the FD on his side. As already discussed in the board composition section (6.3.2, page 157), the FD is one of the key posts on the board that the CEO seeks to fill with someone he can work with. However, the FD acts as a check on the CEO and has to stand up to him and be a counterweight. This situation cannot be an easy one for the FD with the division of loyalties divided between the person who hired them (the CEO) and acting as a counterweight. Interviewees spoke highly of FD Thorne and there is no indication that she did not fulfil her duties. However, with a view to the events of Periods 2 and 3 the role of the FD in these events has to be questioned, especially in light of the recent FCA enforcement action against C Willford (FD 2005 – 2009)[95].

Gatekeepers: Within the executive decision-making structure it does not come as a surprise that the chief executive is the most powerful player, acting as a gatekeeper for proposals to be put forward to the ALCO/GMB as well as full board. This manifests itself in self-censorship of executives in what kind of proposals are made to the committee. Specifically, executives will not propose anything they 'know' the chief executive will not like or approve of[96]. Informal discussions prior to meetings were a particularly effective way of ensuring that proposals that would likely be unsuccessful never saw the light of the day[97]. In addition, executives would meet with Rodrigues on a one-to-one basis to discuss their ideas and convince the chief executive[98]. However, executives did not always agree with the chief executive's proposals either. The process to come to an agreement would typically be a robust discussion as described by Directors X and D.

The role of gatekeeper occupied by the chief executive is mirrored by the chairman on the non-executive side. Director D states that without the chairman's consent,

94 Director D

95 *"A naughty boy B&B boy's reprimand"* The Times, July 11 2014, Alistair Osborne

96 Director D

97 Director D

98 Director D

nothing would go to the board – he is the key player to convince. Thus, decisions that needed approval from the board would be forwarded to the full board upon agreement on the GMB, but not until the chairman had been sounded out. The role of Rodrigues was thus to assemble a team he could work with, and creating a strategy and direction for the business. NEDs were then tasked with reviewing the proposals put forward and suggesting alterations and, in rare cases, rejecting them[99]. This function of strategic oversight required access to information; as discussed in the previous section on MIS. Overall, the board process of coming to an agreement was variously described as 'engaged', 'involved'[100] or 'an osmosis of opinion'[101]. Time for discussion of issues was also seen as important as it supports good decision-making, though some directors felt that there was not always sufficient time, blaming it on external pressures from stakeholders[102]. Director C further explained that, even though directors were always aiming to be thorough and careful, pressure on decision-making gave him a feeling of constraint and unease, which he then perceived to be a limiting factor on board discussion.

The Relationship between Chairman and Chief Executive

Of interest to this study are not only the styles and roles of the Chairman and Chief Executive, but also the relationship of the chief executive with the chairman. The chairman is leading the board and, with the other non-executives has to provide a suitable balance of guidance, oversight and giving the executive team sufficient space to implement that guidance[103]. For the guidance and oversight to be effective the relationship between these two players is critical. In this relationship the chairman acts as *"shrink, father confessor, partner"* [104] and in the end fires the chief executive, but until then has to support him[105]. In addition, the two leaders need to have a comfortable

99 Director A

100 Director X

101 Director Z

102 Director C

103 Director Z

104 Director X

105 Director X

relationship on the parameters of board compensation, which is where the fifth important player comes in. Should the chairman and chief executive not have a good relationship, the remuneration committee chair is required to take up that responsibility of setting the parameters. Interviewees insisted though that during the tenure of Mackinlay and Rodrigues' Bradford & Bingley did not have any issues on this matter. As part of the guidance, the chairman and vice-chairman are responsible for setting the tone on the board and of the business. This does encompass the governance and with the Mackinlay-led board, stewardship was a guiding principle. Director X expressed it as: *"stewardship is at the heart of being a leader"*. Being a steward of the business also separated the ownership of this business from any specific person when he further explained: *"[Bradford & Bingley] is not [our] company, [it belongs to the members]. … We are only stewards."* Linking this to the strategic changes described in Section 5.4.1, the commercialisation and professionalisation of the society was seen as 'stewardship in action', that is preserving the wealth of the owners (members) for the future, by making the society more competitive.

Culture

Again, within the decision-making process on the board, in parallel with the executive committees, informal discussions before board meetings, including board dinners, and presentations during the formal meetings were the main vehicles of this process. The differences in point of view were thus either cleared up and eliminated prior to the meeting, or were talked through during the meetings. While executives described the board discussions as "*robust*"[106], non-executives preferred the word "*challenge*"[107], in that they would challenge and probe the proposals put forward until they were satisfied, or not, with the answers. Very rarely was the process confrontational, and according to Director Z, it only happened once that the Finance Director (FD) opposed to an item being minuted, once again underlining the generally consensual decision-making procedures. Within the board meeting the role of the chairman was seen as him being *"The Master of Ceremony"*[108] who had to ensure that

106 Director X

107 Director C

108 Director C

the board would come to a consensus[109]. In this regard, the following paragraphs explores the role of the chairman within the formal structure as well as the relationship with the chief executive.

Overall, the chemistry on the board was described as good and collegiate. While there were naturally *"varying degrees of likeness"*[110] and differences in opinion on business[111] and strategy[112], all interviewees agreed that there were generally no problems during their tenure and that the atmosphere was friendly and polite[113]. Nevertheless, it was not all plain sailing as there was times of tension[114] and discontent, especially in the wake of Rodrigues reforming the executive team with senior managers not being happy about being cast aside[115]. A certain degree of tension was seen as important to prevent complacency on the board[116]; a further source of tension came from people's personality. In particular, certain members of the top management team, such as sales and marketing directors, tended to be more optimistic in their assessment of the success of proposals, compared to other more cautious or pessimistic team members, for example, FD Thorne or company secretary McGuinness[117]. This tension between directors seeking to preserve what is versus those who focus on the future, created an atmosphere in which some proposals were discussed robustly, though not in a hostile way[118]. Interestingly, these same interviewees stated that there were no sub-groups or camps on the board that would continually battle each other. While there certainly was potential for this scenario with each executive having their own organisation and circle of supporters, cohesion and collegiality did seem to win the day. An example of cohesion and collegiality is when Rodrigues introduced the Myers-Briggs personality test to his executive directors

109 Director X

110 Director C

111 Director D

112 Director X

113 Director Z

114 Director D

115 Director Z

116 Director D

117 Director D

118 Director A

in order to improve management team unity and cohesion, chairman Mackinlay suggested that non-executives participate in the test to make it a team effort[119]. While Director Z thought that nothing was gained from the exercise, it did demonstrate unity and cohesion in the management team.

To briefly summarise Period 1, culture and cultural change were at the heart of board board composition and interaction. Cultural change was induced with the hiring of Rodrigues and the subsequent commercialisation and professionalisation of the firm. To this end Rodrigues exchanged a number of executive directors, thus changing board composition and TMT characteristics. Furthermore, the new chief executive was keen to increase the engagement of non-executives with the firm and with board decision-making. Thus mediating strategy processes were impacted through board change. In addition, TMT decision-making was affected through the increase in engagement of non-executives with strategy, as well as through changing personnel on the board. Demutualisation did have a minor impact through changes in the rules and regulations governing the board, increasing their responsibilities in ensuring that the firm is run appropriately. Finally, the external environment, in particular the success of Northern Rock, put pressure on the board and making the share price of high importance to key decision-makers. The result of these factors are reflected in the organisational outcome of Bradford & Bingley moving from prime mortgage lending into buy-to-let and self-certified mortgages.

119 Director Z

6.4 Period 4: 2008 – 2010

This section will present the perceptions and experiences of board members of Bradford & Bingley during Period 4 – Decline. Again, the focus is on reporting and summarising the information gathered through interviews and other sources. Furthermore, this section will also draw on the comparison between the two periods under discussion in this chapter. As discussed in Section 5.7 Bradford & Bingley changed significantly after nationalisation in 2008, becoming a state-owned enterprise and ceasing all lending and savings business, with the latter being sold to Santander. Hence, the goals and premises of the underlying business differ greatly from any period in the past. Naturally, the four areas of investigation, namely context, board composition, mediating strategy processes, and TMT decision-making, are still relevant, but changes in the external environment are strongly reflected in the interviews.

6.4.1 Contextual Factors

The context the firm operates in has changed significantly since 2008 with nationalisation, the financial crisis and a new set of stakeholders providing a very different set of circumstances in which the firm operates. The pressures of financial markets and shareholders for financial results has been removed and replaced with the goal of recouping as much value as possible for the new owners out of the remaining assets and liabilities. In addition, the almost complete removal of the former top management team further contributed to significant change within the firm, especially in terms of culture.

Culture: In contrast to Period 1, culture did not figure prominently in any of the interviews conducted in this period. In addition, the view of culture was fundamentally different. Director Y considered culture to be a level 2 construct, that is, on an individual level, culture was relevant insofar as employees with a ‘good culture’ are the ones that need to be retained within the firm, employees with a ‘bad culture’ need to be removed to maintain a good working culture and values. Director B however saw culture to be a macro-level construct instead, a fundamental difference to the views expressed by interviewees of Period 1. In particular, the director viewed culture as an external object, that is, culture is not determined by the board, but rather monitored instead with the object of monitoring being employees:

> *"we get statistics on employee satisfaction surveys, you know, are they happy, are they content, do they understand all those questions, we get statistics on how people are leaving, sicknesses, leave of absences, that sort of thing. So we do monitor how good the culture is, yes."*

To recap on Period 1, culture was seen as being determined by the top management team and thus could be changed if need be. The transition in that period from 'cosy mutual' to commercial plc bank through actions of management did transform the firm, and arguably had an influence on culture, as demonstrated by Director Y's quote:

> *"before the government ownership [the focus] was on sales, so they came up with all these schemes, backwards; there was no waste to fill so there was chaos operationally."*

Internal Stakeholders: The split of Bradford & Bingley into two entities, one continuing as UKAR, created once again a firm sheltered from competition, as the Society used to be until the mid-1980s. However, the operational context differs greatly. With nationalisation and the firm being in run-off, the motivation and retention of internal stakeholders is a major concern and determinant of success.

> *"You know, would you want to go into a cocktail party and say I am working for a company where my objective is to turn the lights on one day. I mean how motivating is that? We have to do everything now around … trying to give lots of training, good work life balance, all that kind of stuff … we do debt management; I am looking at resources not only as cash, but as expertise and people. If we do not have those debt managers, the arrears are going to go through the roof and … we are not going to repay the government loan. So I … worry about keeping the staff actually."*
>
> *Director Y*

In essence, with the firm necessitated to focus on the well-being and contentment of its employees as a key success factor, it has returned to its roots of being a ‘caring organisation’, albeit with a much sharper focus on its own economic success. Thus, the external environment is a major driving factor in transforming firm culture.

External Stakeholders: On an organisation level, pressures have settled after an initial period of changes in the wake of nationalisation. The operational separation of the lending and deposit-taking business units from mortgage and treasury assets in 2008 and the merger of the remnants of Bradford & Bingley and Northern Rock to become UKAR in 2010 created operational pressures to merge systems and procedures or migrate to a single system. While both time periods were ‘intense’ and contained ‘a lot of fire fighting’, all the key processes and procedures have been put in place and the firm has entered *“a steady state”*[120]. Generally, with the firm being in run-off, outside pressures on the board are reduced, in particular, as decisions are mostly limited to operational issues until government loans have been repaid, the pressure to make quick decisions is much reduced[121].

Nevertheless, the new owners, do exert some influence on the board, as exemplified by the decision to award the management of the government’s mortgage guarantee scheme to UKAR. The government, being the ultimate owner, approached UKAR to take on the responsibility to manage the new government scheme. However, due to the nature of the relationship between UKAR and the government, the management of UKAR felt that it had little choice but to agree as it *“believe[s] in doing the right thing, if they are appealed to by government to do [so]”* [122]. The executive management team also saw it as a recognition of its work to date and was thus keen to please its owners[123].

This keenness however contributed to tensions on the board, as the executive team agreed to take on the management of the scheme without consent by the whole board, not only because ‘they believed they were doing the right thing’, but also because of the

120 Director Y

121 Director B

122 Director Y

123 Director Y

time pressure imposed by its owners[124]. UKAR agreed in July to begin administering the scheme in September, not having had the opportunity to prepare a business plan and to receive the consent of the board. This shows that the influence of external stakeholders has, in some sense, intensified as a relatively diffuse set of stakeholders, first society members and later shareholders, has been replaced by a single stakeholder which, in addition, supplies all of the firm's financing and thus creating a very strong dependency or power imbalance between firm and owner.

In summary, internal and external stakeholders have become the main focus of TMT decision-making due to the firm being in run off. Internal stakeholders have become important due to the firm needing to retain good staff to fulfil its objective of repaying the government loan. The external stakeholder has replaced a more diffuse set of stakeholders, and, by also supplying vital finance, has a very strong position to influence the firm to reflect the owner's priorities. Finally, the lack of a clearly formulated culture is interesting, which might be a reflection of the changed purpose and size of the firm. In particular, the performance and sales driven culture in place previously is unsuitable for the part of the business that has remained with UKAR; a new culture to replace the previous one has seemingly not yet been established though.

6.4.2 Board Composition

Board composition changed dramatically between nationalisation and the amalgamation of Bradford & Bingley in UKAR. The majority of discussion in this section will focus on the board at or after 2010, rather than 2008-2009. As previously discussed in Section 5.7.2, the majority of the board retired on 14 November 2008, with the exception of two non-executive and three executive directors. Figure 6.4 below shows the changes on the board between the end of 2008 and October 2010.

124 Director Y

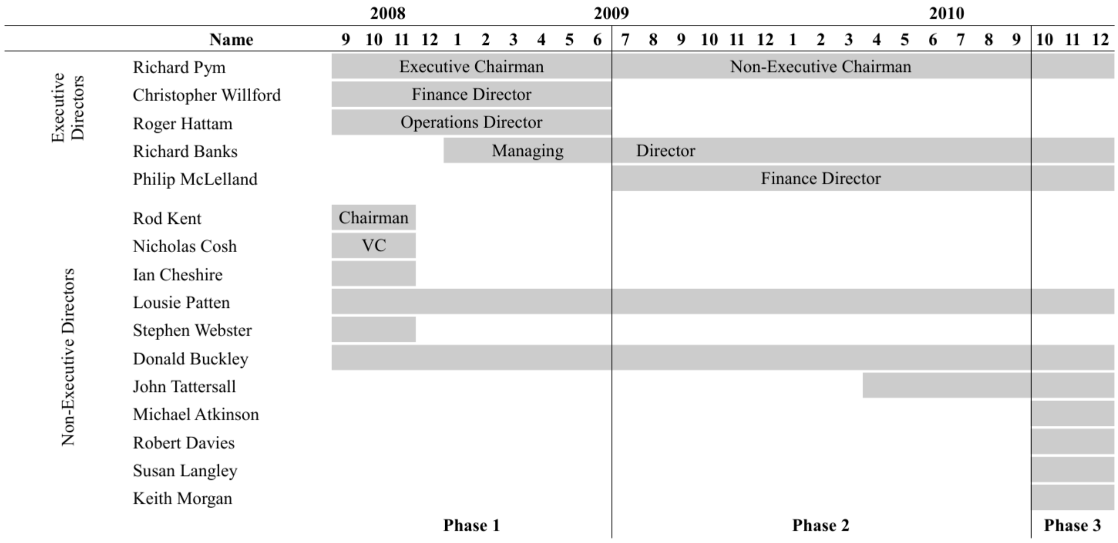


Figure 6.4: Board Composition 09/2008 – 12/2010

Overall, interviewees had different views on board composition. For example, Director B thought that the board was relatively static, with the exception of the merger of NRAM and B&B under UKAR in October 2010, and that there was really no impact of any changes on the board. The assessment of a static board is based on the fact that key appointments were made early on in 2008 and 2009, in particular the chairman and managing director, as well as the retention of two non-executive directors.

The board is, and was, generally dominated by career bankers, though there are a few exceptions, in particular John Tattersall and Susan Langley, with backgrounds in public accounting and operations respectively. In addition, board members are generally middle-class, middle-aged of similar social background. Again diversity was expressed in terms of points of view, rather than other typical measures of diversity. This is underlined by quotes such as:

> *"I have to say in the eyes of the public I mean we are all … middle-class, middle-aged in background and come from sort of a similar social background, I mean that is almost always the case on these Boards, but we do think differently, I mean we do quite well in terms of diversity."*
>
> *Director B*

The fact that there are two women on the board during the period is highlighted by interviewees and cited as an example of diversity. Director Y recognises that with the merger two female directors were on the board and that this did affect board dynamics.

> *"when [NRAM] came together with Bradford & Bingley … the dynamics around the [board] table changed, … in that it became slightly more collegiate, more open. In fact interestingly I noted in the last Board meeting [that] 70% of the questions asked were by Louise [Patten] and Sue [Langley] ... which was interesting."*
>
> *Director Y*

Overall, both interviewees expressed strong satisfaction with their board colleagues. The board is described as complementary and having a good rapport.[125] In particular the chairman was seen as instrumental in building and reinforcing this sentiment.[126] The board consists, besides career bankers, of Treasury/Government officials as representatives of the owner. Overall though, Chairman Pym chose board members for their complementarity of skills that are required by a firm in run off[127]. The advantage of having a mix of skills is highlighted by Director Y stating that: *"I don't go into the Board feeling that I understand everything inside out, but that's the whole point about having a mixed Board, not everyone is going to understand everything."*

Again, the chairman is the driver of the rapport on the board, and, as in Period 1, board dinners are one tool of building such rapport. The result of the chair's actions and style is that tension on the board are very rare. Furthermore, the executive team was described as very tight knit and working very well together, again, as a result of a mix of different personalities and skills. For example, the managing director and finance director are described as having different styles of thinking but are able to harness these without being argumentative or frictional[128]. Similarly, there are different personal styles on the non-executive side of the board as well. In this regard, Louise Patten is described

125 Director B

126 Director Y

127 Director Y

128 Director Y

as ‘a free thinker’; however there are other non-executive directors which put more emphasis on formality and convention and thus see her as *“being away with the fairies”*[129]. In these differences though lies the strength of the board as recognised by the same director: *“I think [this is] what makes a good Board, because, if you had everyone that was methodical, or everyone like Louise [Patten], it would be a nightmare.”*

Finally, the board was earlier described as being relatively static in terms of board composition. Nevertheless, changes in board composition did impact board atmosphere, in line with comments made by Rodrigues in Period 1. Director Y exemplified this by highlighting the differences between Keith Morgan and Jim O’Neil and how their style and demeanour impacted on the atmosphere on the board. The introduction of O’Neil to the board is said to have brought a degree of levity in dealing with problems, whereas Morgan’s approach was seen as rather increasing tension. Nevertheless, the board was seen as working well and without serious problems, which is best summarised by Director Y:

> *“I mean, I have seen other boards where there are cliques which are really destructive, where those set cliques against each other, but we don’t have that.”*

6.4.3 Mediating Strategy Processes

This section will focus on two factors, first on director engagement with the firm, and, second, on the state of management information systems at Bradford & Bingley. In terms of engagement with the firm, a number of levels of engagement have emerged during the interviews. On a very basic level, directors, especially non-executive directors, engage with the firm through attendance at board meetings. However, a variety of other ways of engaging were brought up as well, specifically committee work and site visits, with the latter including meeting junior levels of management. Indeed, site visits were deemed to be encouraged by senior management and seen as an important tool to immerse oneself in what is happening within the firm[130]. Finally, 'Away Days' were mentioned as an important tool to engage with the firm and other

129 Director Y

130 Director B

board colleagues. As board dinners, these away days are useful in building rapport and understanding on the board, and in particular, to discuss strategy in a more open and less pressured atmosphere, for example, through strategy workshops or "*blue sky papers*"[131].

On a personal level, the chairman is encouraging non-executive directors to get involved. One example provided was that some non-executive directors were mentoring the leadership team and thus supporting them with their knowledge and experience[132]. These and other ways of engaging directors and building rapport have created a web of trust on the board in which issues are discussed openly, during meetings ,but also informally, again something which is encouraged from the top. Richard Pym is said not to be the type of chairman that 'wants to see non-executives only attend board meetings and get out of the way otherwise' [133]. Though the board does seem to work well, there are moments of tension between individuals. These can often be diffused during meetings, however especially tensions between non-executive directors are often resolved at the board dinner the night before the meeting. Thus, the chairman uses a variety of tools to engage and build rapport between directors. This is especially important for non-executive directors, which, according to Director B, spend approximately 30 days per year engaging with the firm.

Management information is separated into two specific sections, first, board packs, and second, management information systems. Board packs, before the operational merger of B&B and NRAM were often around 800 to 1000 pages. In addition to the voluminous nature of the board packs, the information therein was not always considered to be helpful or relevant in some situations. In particular, NRAM and B&B had different styles of presenting information, with NRAM heavily focusing on 'pretty diagrams'[134] while B&B was heavy on figures and tables. Both packs had information that was relevant as well as irrelevant and thus the chief risk officer was tasked to develop a new, consistent approach to presenting information for the now common company using more graphical representations and heat maps. As a net effect the size of

131 Director B

132 Director Y

133 Director Y

134 Director B

board packs has come down to approximately 250 pages and 'have become a lot better'[135], though some directors still think that the information is not presented concisely enough.

> *"Louise Patten for example, she thinks our Board packs are too short, I think they too long because I want the executive team to encapsulate what is keeping them awake at night in the top paragraph, I don't want to read 20 pages or trying to guess what is keeping them awake at night."*
>
> *Director Y*

Even though board packs have become shorter and more concise, the information that was contained in previous packs has not been completely removed; some of it has been moved onto an electronic platform instead, thus being available online[136]. This supplementary information is still voluminous and not every director finds it to be of use, as illustrated by the following quote:

> *"I think the exec team here, and I have seen it with other exec teams, it's almost like 'well we have given you all of the information, if you haven't spotted page 22, section 1.4.8, sub section 2, it is not our problem because we put it in the 'iRoom' '."*
>
> *Director Y*

Thus, the amount of information available to directors is of concern, as the correct interpretation of such information is crucial to making the right decision. Even though non-executives are highly experienced and are accustomed to reading large volumes of information in a short span of time[137], deciding which information is relevant as well as

135 Director Y

136 *"They [the board packs] have got a lot better, but what I think happened is they got better because they bunged most of it in the iRoom" Director Y*

137 *"I have done it all my life and I can do this because I can concentrate sometimes." Director B.*

digesting the information to be able to ask the relevant questions is not always easy[138]. Indeed, *"very occasionally we do tend to get bamboozled with detail."*[139]

Not only did board information packs improve in quality, but also the management information systems which generate the underlying data had to be improved. Especially the operational merger of B&B and NRAM enabled this opportunity. The old systems inherited from Bradford & Bingley were described as being old-fashioned and very much sales-driven, and because the systems were not designed to process all the sales-schemes appropriately, there was a degree of operational chaos[140]. The merger of NRAM and B&B enabled UKAR to not only redesign the systems to work appropriately, but also to amend them to provide new information on lending risk[141].

Initially, risk analysis of borrowers was very much focused on the borrower's income. However, with the input from Sue Langley and her operational experience gained with Lloyd's Insurance, risk measurements were redesigned to be more rigorous and take account of a wider range of information such as customer geography or age[142]. The firm now has access to over 50 measures of customer risk[143]. In summary, even though the redesigned management information systems added complexity in terms of available information, overall the firm has a much simpler business model through operational simplification after the sale of the deposit-taking business. These changes have allowed for UKAR to become risk managers and open up possibilities of future business, as discussed in Section 5.7.1.

6.4.4 TMT Decision-Making

Two key terms emerged as important in the interviews: challenge and support. These terms were applied to two forms of interaction between executives and non-

138 *"If you are not steeped in the business I might not necessarily pick up the right question to ask in 20 pages and it's not 20 pages, I mean at one stage our Board packs were 800 pages." Director Y*

139 Director Y

140 Director Y

141 Director B

142 Director Y

143 Director Y

executives. Challenge was focused on the interaction between the two groups during formal board meetings, whereas support was tied to working with executives between board meetings or during committee meetings.

Director B for example thought that *“our role [as NED] is to challenge and to monitor”*, but was also very aware that *“one doesn't come onto the Board to teach the executive, one comes on the Board to challenge the executive, to ask the right questions.”* In this vein, the director further explained that *“the non-executive directors are not introducing context, they are not saying this is where you should do business, or how you should do business, it is challenging people when they really don't know what they're doing or seem to be going off the rails.”* Thus the role is very much framed in terms of control and monitoring to ensure that executive directors are acting appropriately.

Director Y however, framed the role of the non-executive reflecting the duality of the role of challenging and supporting, stating that *“the term they use is ‘critical friend’, so you have to support the exec team, but you also have to challenge them and ask the difficult questions”*. Generally, non-executives saw themselves supporting executives during committee meetings or when meeting informally. Referring to the role of committee member, Director B stated that committees are not there *“[to] challenging management, it is helping to steer management thinking, it is supporting for example, the Chief Risk Officer, the Chief Compliance Officer, making sure they are thinking properly and structuring their department correctly.”* A further example of supporting executives has been discussed earlier, when Director Y explained how Sue Langley supported the operational restructure B&B and NRAM to integrate both into one MI system.

CEO Leadership: Again, as was the case in Period 1, the chairman and chief executive were instrumental in setting the tone on the board. Furthermore, as discussed in the Mediating Strategy Processes section above, the chairman is keen on getting non-executives involved in the firm, and as just presented, non-executives are supporting executive directors on the committees. The behaviour described so far is naturally linked to how the chairman is leading the board and the tone he is setting. The view of interviewees on the qualities and style of Richard Pym are very similar.

In general, Pym is seen as a leader who listens to all opinions, but also actively asks for opinions during board meetings. In particular, just like Mackinlay during Period 1, he is hearing everyone out, not looking to impose his own view or coming with pre-determined opinions. In addition, being described as open and transparent also contributes to him being seen as very balanced and fair.

> *"He is a very good Chairman who is very balanced, I mean you can tell … when he doesn't agree, his body language is very obvious, but I have worked with Chairmen who cut you off, but he will still hear you out, make sure it is in the Minutes and still say 'well what do the other directors think', he won't push his view or the chief executives view over the board's wishes; he is very good."*
>
> *Director Y*

This very positive view of Pym as a leader does however contrast with some of the comments made on UKAR agreeing to be administering the government's mortgage guarantee scheme, where the chairman and managing director agreed to UKAR taking on the role without first consulting the non-executive directors. While the board expressed its unhappiness about the situation, steps have been taken to avoid such occurrences in the future by introducing Strategy Days. Despite this event, interviewees were still very positive about Pym as a leader.

General Decision-Making: Building on the previous discussion, decision-making was thus very much a team effort involving executives and non-executives at various stages of plans and proposals being developed. Again, non-executives are supporting executives in preparing proposals to the board, which will then get challenged by non-executives during board meetings. Interviewees were positive about board meetings and board climate.

For example, one reason why board meetings were generally non-contentious is that most disagreements and problems will have been solved prior to the meeting, such as on committee level. With the update of MI systems and the digitization of board packs, a lot of board interaction is happening in online exchanges, for example through e-mail. However, "*sometimes a few email exchanges get a bit static because emails are the* *worst things, you cannot have an argument, a discussion, on email, it doesn't come across right, it's just a written word. The Chairman will sometimes say 'let's take this offline think about it at the Board meeting'."* [144] Another venue to diffuse tensions is the board dinner the night before the meeting. Thus, by the time of the board meeting, most differences in opinion will be at least known, if not resolved.

Any remaining variances of opinion are only overridden after a lengthy discussion and as such board members would not feel as if they were sidelined or ignored. For example:

> *"[disagreements] tend to get resolved in the meeting. Richard Pym is very good at saying 'this, that, or the other' and there was one [meeting] recently where one of our non-executives disagreed with a decision we all made and he said 'I would like it recorded' and the Chairman said, and there was no animosity, said to the Company Secretary for the Minutes 'could you please note that'."*
>
> *Director Y*

Generally, no one was said to have ever walked out of a board meeting in anger and that the examples of tension on the board are the exception:

> *"And I am making it sound bad. It is very rare. Compared to any Board I am on, any tension is rare but we have had it a few times."*
>
> *Director Y*

In summary, interviewees were very positive about the board process and decision-making. Director Y *"would say the decision making is, for any Board I have been on, probably one of the most open and transparent."*, with Director B concurring to that opinion stating that: *"I think B&B is as good as it gets. Bearing in mind we don't have to decide on new products and things like that."*

144 Director Y

To summarise Period 4, culture was noticeably less prominent during this period, possibly as a result of the large organisational changes since nationalisation. The more significant contextual factor was the external environment, which overall became less pressured and fast-paced. The impact of nationalisation was most keenly felt through the arrival of a new and major stakeholder – the government. The new stakeholder redefined the goals and size of the firm, as well as impacting board composition. However, mediating strategy processes and TMT decision-making were more dependent on the chairman and chief executive, than in Period 1 where culture played a significant role as well. Again, engagement with the firm and participation in and support of decision-making is driven by the chairman's style. Overall the transformation of Bradford & Bingley into UKAR as an asset and risk management company is largely driven by the needs and wishes of it's major stakeholder.

6.5 Discussion and Conclusion

In this section, the evidence that has been presented in the previous sections 6.3 and 6.4 is discussed. In doing so, Period 1 and Period 4 will be contrasted, and, findings will be situated in academic literature. Again, a similar structure as used in the previous sections is employed. Roberts et al. (2005) observe that there is a lack of understanding of the behavioural processes on boards of directors in the corporate governance literature. Hence this chapter seeks to contribute to the ongoing debate by examining the processes on the board of Bradford & Bingley during different life-cycle stages using the upper echelons theory as the analytical framework. Thus the focus is on individual directors as much as it is on the board as a group.

In line with suggestions by Pye & Pettigrew (2005) this research considered the context of TMT decision-making. In particular, the inner context of firm culture and stakeholders and outer context of external stakeholders and wider economic environment have been considered. Starting with the contextual factors, and in particular culture, it has been found that the importance of culture within the firm has changed significantly.

During Period 1, culture was seen as a form of identity that defined the rules of human interaction as well as the rules of how the firm and its upper echelon treated its employees. Rodrigues, with the support of Mackinlay, sought to transform the Society's culture from being a 'cosy Yorkshire Mutual' with strong ethics to a more competitive and professional organisation. This change in culture was seen as central to changing the economic outlook of the firm. One central way to achieve this transformation was through acquisitions of Mortgage Express and a number of estate agents and financial product brokers. The impact of these acquisitions on company culture however was doubted by some interviewees. That there eventually was a change of culture was evidenced a comment by Director Y, stating that prior to nationalisation the focus of the firm was very much on sales, to the detriment of financial health.

In contrast to Period 1, after the break-up of Bradford & Bingley at the end of 2008, the part of the business that remained with the government has no specific culture.

Interviewees looked at culture as an individual-level construct that impacts on overall firm performance. Thus during Period 4 ‘culture’ is monitored using surveys in order to ascertain whether employees are content and have the right mind set. In particular, firm culture was defined as something that could not be set by the board. Thus the view of what firm culture is has changed dramatically between Period 1 and Period 4.

Common between both periods though was the recognised importance of the chairman and vice-chairman in setting the tone of the board and firm. Stemming from the very different circumstances of Periods 1 and 4 the tone of the business differed. During Period 1 stewardship was the key tenet of the board, that is the board of directors saw themselves as the stewards of the business, safeguarding the surplus and wealth generated from past and current members. This notion of stewardship was carried over after demutualisation, though the focus shifted more towards new stakeholders such as shareholders.

Period 1 presents a picture of a high degree of informality in decision-making on the board. What emerged from the interviews is a sense of the multitude of avenues of information exchange and decision-making outside the boardroom through board dinners, presentations, strategy days, but also one-to-one discussions in the office or via the phone between all members of the top management team. Indeed, these informal discussions were key to shaping executive and non-executive thinking, but also board agenda. These informal discussions thus enabled control of the flow of information and proposals to the board meetings.

The board agenda would be shaped by a multi-stage process through committee meetings and above mentioned discussions, but would ultimately have to pass a number of gatekeepers, such as committees, but also approval by the chief executive, with support of the finance director, and, the chairman. Mackinlay recognised the importance of information and involvement in controlling the flow of information to the board, which explains his membership of the ALCO committee. Thus, by the time of the actual board meeting all participants would have been aware of the items on the agenda and the views of other directors. Nevertheless, this did not prevent the board from having robust discussions, challenging executive director’s proposals thoroughly. The meetings and prior discussions showed a high degree of openness, mutual trust and likeness between board members, fostered through the chairman's consensual and gentle style, which also benefited the engagement of non-executive directors with the firm.

Furthermore, the hierarchy of gatekeepers clearly recognises the primacy of the chairman at the apex of the organisation. Mackinlay, even though he was described has arm's length, nevertheless controlled the agenda. His approach to his chairmanship was detached in seeking not to interfere with Rodrigues' running the operations of the firm. This detachment contrasts with Kent's interpretation of the role, which was much more involved and hands on, felt through his frequent presence in the office. The relationship between Mackinlay and Rodrigues clearly distinguished between their roles, with both sides working together to good effect with a high degree of trust.

The way board processes worked during Period 4 is remarkably similar to Period 1. Again it is found that decision-making is characterised by a high degree of informality, though perhaps a little less so than in Period 1. Also once more engagement with the firm on multiple levels is a very important factor in informing and preparing non-executive directors for the decisions they have to take. This engagement is, again, through site visits, strategy days, board dinners and committee work.

The committee work in particular is signifying the support non-executive directors provide to executives. Within the committees non-executives are there to provide support and feedback on executive thinking as well as advice and guidance. The duality of challenging yet supporting is also reported here to gauge whether the proposals put forward to the board hold water and have been thought through. The engagement with the firm and involvement in committee work provides the necessary background information to non-executives to evaluate proposals and make informed decisions (Roberts et al., 2005).

Thus, committees and committee chairs are gatekeepers in controlling which proposals will be put to the board. In contrast to Period 1, the chairman and managing director were not particularly emphasized as being as much in control of the agenda as Mackinlay and Rodrigues were. While there is not enough evidence to suggest otherwise, comments made regarding the leadership of Pym point at him being similar to Mackinlay in many ways. For example, Pym as chairman is the one setting the tone of the board. The tone of the board was described as open, transparent and inclusive. Participants would always be listened to and the chairman solicits the opinions of all members, regardless of his own personal opinions, which he is not pushing onto the board in any way, in contrast to Rod Kent.

An interesting aspect of Period 4 was the addition of information technology in aiding board discussions outside meetings. Board packs and supplementary materials have all been moved into cyberspace, thus making the information constantly available and in a much shorter time frame than in the past when board packs had to be sent via courier. The availability of this facility has also impacted discussions, as a lot of these are being conducted online, which may contribute to board tension as stated by one interviewee. However, the chairman would in cases of tension make sure they are taken offline and discussed face to face prior to board meetings.

Another source of tension is board composition, and in particular, personalities. Whereas some directors were seen as having more levity or being free thinkers, others were more formalistic and thus contributing to tension on the board. Overall though the board was seen as being very cohesive and working very well. Despite the remarkable similarities between the two periods, one notable difference was the higher emphasis on control and monitoring by non-executives. This was expressed in relation to company culture, but also when discussing the role of non-executives within the decision-making structure of the firm. It is argued that this increased focus on control and monitoring is a function of the changing regulation in corporate governance and an outcome of the various governance reviews undertaken in the UK.

As argued by Nordberg & McNulty (2013) the shifting UK corporate governance code recognises that appropriate board structures (Cadbury Report 1992) and non-executive director independence (Higgs Review 2003) are not sufficient to have an effective board, but that board effectiveness depends on behaviour. In particular they argue that excessive independence threatens board cohesiveness and supports unhealthy detachment and *"that directors, not codes, are the only real guarantors of board effectiveness, and that their choices, not the prescriptions of institutionalised arrangements, make the difference"* (Nordberg & McNulty, 2013, p. 366). Thus this study supports Nordberg & McNulty in their assessment, though it is suggested that appropriate formal structures as well as a certain degree of independence are preconditions for non-executive directors to be effective in their respective roles.

Roberts et al.'s (2005) contribution to the Higgs Review previously challenged the importance of independence of non-executive directors and provided an alternative description of their role. In their study they identified three couplets describing the role of the NED: ‘engaged but non-executive’, ‘challenging but supportive’, and ‘independent but involved’, which are also reflected in these findings. Non-executives at Bradford & Bingley exhibited these features in their behaviour, though there were degrees of variance, especially in Period 1. For example, the degree of involvement of Mackinlay and Kent was described very differently, with the former being seen as ‘more hands off’ and ‘arms length’, while the latter was much more involved in the business. Whether this involvement was beneficial, or whether it did impair the functioning of the board is subject to speculation as there is insufficient evidence to support either conclusion, though anecdotal evidence would suggest that there were issues. Based on Parker's (2007) findings it is suggested that with the departure of Rodrigues board dynamics changed, where previously Rodrigues was the driving force on the board with the chairman taking the role of mentor (taking a back seat), whereas later Kent became a much more actively involved.

These three couplets of director behaviour are reflected in different aspects of the upper echelons model used here. As such, involvement and engagement with the firm are reflected in the mediating strategy processes, while challenging and supporting as well as independence are part of TMT Decision-Making processes. However, these three couplets fail to recognise the importance of boardroom culture in providing non-executives the opportunity to perform their roles effectively.

Furthermore, Roberts et al. (2005) focus on the role of non-executive directors. However, the boardroom is inhabited not only by non-executive directors, but also by executive directors. The interaction between both types of directors, as well as the role played by the chairman and chief executive are pivotal in determining not only the effectiveness of non-executive directors, but the effectiveness of the whole board, and thus the organisational outcomes of decisions made.

In this context, boardroom culture has emerged as the major determinant of decision-making in this case study. Parker (2007) in his study of two non-profit organisations identified boardroom culture as a major factor in the decision-making. Heeding the authors call for more research into this area, it was found that boardroom culture was influential in the perception of decision-making. More importantly, it revealed the importance of the role of the chairman, but also the chief executive in fostering this culture and the perceptions of board members of decision-making.

In this chapter, board process were integrated with contextual and environmental factors through combining the corporate governance life-cycle and the upper echelons theory by exploring director perceptions and effectiveness in different organisational contexts using a case study approach. Thus this study reflects different life-cycle stages, ownership patters and regulatory environments in its exploration of board processes at Bradford & Bingley.

Chapter 7

7 Conclusion

7.1 Introduction

This chapter draws together the findings of the empirical chapters 5 and 6, into one coherent framework, to illustrate how changes in the external and internal environment led to Bradford & Bingley's transition through different life-cycle stages and how board processes contributed to, and influenced, these transitions. The thesis has examined not only transitions between life-cycle stages, but also board processes and organisational change within life-cycle stages. Examining board processes and interactions across time, while distinguishing between internal and external influences on the board, developed a picture of how Bradford & Bingley changed between 1995 and 2010.

In addition, the thesis does not take a dogmatic view of each theory (corporate governance life-cycle, upper echelons perspective) as a set of strict procedures to follow, but rather combines the two theories to use them as a guide to investigate the processes and perceptions of organisational change. The corporate governance life-cycle is employed to analyse the changes in strategy, resource and monitoring – the three functions of governance – over a period of 15 years, thus adopting a macro view of the organisation and its management. The upper echelons perspective is then used to study the perceptions of change and board processes leading to change within two distinct periods of Bradford & Bingley's history, thus adopting a micro view of the organisation and its management. By investigating the phenomenon of organisational change from different perspectives, a richer, more detailed picture of how the firm evolved and what influences were instrumental therein is created.

The remainder of the chapter is structured as follows. In the next section, 7.2, a summary of the two empirical chapters 5 and 6 are presented, showing how the key findings of these chapters complement each other in illustrating the changes at Bradford & Bingley. Section 7.3 discusses the contribution to knowledge, followed by a presentation of the limitations of the thesis in Section 7.4. Then, in Section 7.5, suggestions for future research are given. Finally, Section 7.6, concludes with a personal reflection of the entire research process.

7.2 Summary of Results

This thesis is a longitudinal investigation of the transformation and decline of Bradford & Bingley between 1995 and 2010. Bradford & Bingley was chosen for this case study as it has unique characteristics that distinguishes it from other demutualised building societies.

First, it is the only building society to date, that has demutualised at the behest of its members, against the expressed wishes of management. Thus, in contrast to the TMT's of other demutualised building societies (for example Abbey National, Halifax and Northern Rock) who favoured demutualisation, the management of B&B had to adapt to the new reality of running a plc, without being predisposed to it. This situation addresses the problem of endogeneity in board decision-making in the upper echelons perspective (Hambrick, 2007) with respect to demutualisation.

Second, Bradford & Bingley was the last society to convert to plc status. It demutualised three years after the majority did, and after most of the public pressure on building societies to do so had already subsided. In addition, the firm experienced significant changes over a relatively short period of time, which allowed for the observation of the impact of a variety of contextual factors on changes on the board and of the board's decision-making. Thus Bradford & Bingley is well suited for this study as it demonstrates a number of corporate governance life-cycle changes.

The case of Bradford & Bingley is analysed using a combination of documentary evidence and interviews with current and former directors, tracing the transformation from building society to bank and nationalised institution. The corporate governance life-cycle provided a framework for investigating the transformation, enabling the identification and analysis of four distinct periods, each with their own strategic, resource and monitoring needs. In investigating the transformation of Bradford & Bingley, the role of the board in directing change was examined, as the board is at the apex of decision-making of the firm (Pettigrew & McNulty, 1995; Pugliese et al., 2009;

Stiles, 2001). Furthermore, this research rejected agency theory as a framework of analysis of organisational change in favour of investigating the phenomenon from a theoretical perspective that recognises the importance of decision-making processes and human interaction in the upper echelon of the firm (Pettigrew & McNulty, 1995; Zattoni & Cuomo, 2010; Maitlis, 2004; Roberts et al., 2005). Using the upper echelons perspective, the perceptions and roles of directors were analysed to explore how the various actors on the board interacted and how the board as a whole worked in making decisions. In doing so, this research emphasises the importance of human interaction on the board over structural aspects of governance, treating them as distinct phenomena. The thesis thus addresses a number of research questions, which are outlined below.

1. **How did Bradford & Bingley adapt its governance structures during the different corporate governance life-cycle stages in the Period 1995 – 2010?**

In Chapter 5 the organisational life-cycle stages Bradford & Bingley went through between 1995 and 2010 were identified, which established four distinct periods of time. These four periods were then grouped into life-cycle stages based on their commonalities and differences, such that Periods 1 – 3 (1996 – 2008) were all of the same life-cycle stage – Revival, and Period 4 – (2008 – 2010) – Decline .

What the analysis of changes in the corporate governance functions highlights is the importance of the three governance functions of strategy, resource and monitoring in determining whether a firm has transitioned into a new life-cycle phase. Hence the corporate governance functions are central to describing the state of the firm. Significantly, it is found that the importance of each corporate governance function does change gradually over time within each stage. For example, while strategy was important during Period 1, the importance of strategy tapered off towards the end of the period once the major changes to strategy had been implemented. The same can be observed in Period 3 and Period 4. Thus it is concluded that the transition from one life-cycle stage to another is a fuzzy event in that it is often not possible to determine a specific date as the cross-over point, but rather a period of transition in which the governance functions gradually change.

In addition, it was not possible to determine a transition event ex ante. For example. demutualisation is a fundamental change of the governance principles of the firm and a change in the composition of stakeholders. However, despite this fundamental shift there was no new beginning of a life-cycle stage as the strategy and resource needs of the firm did not change. In contrast, nationalisation did mark the beginning of a new life-cycle stage. Again this event marked a fundamental change in the governance principles of the firm and also a change in the composition of stakeholders. This was however accompanied by an equally significant change in the strategy and resource needs of the firm.

It further emerged during the interviews that directors considered there to be a general hierarchy of governance functions, where determining strategy was considered to be the prime responsibility of directors. Once strategy had been determined, financial and knowledge resource could be adapted accordingly to serve the new strategy. This situation could again be observed in Period 1 where Rodrigues set about to transform Bradford & Bingley into a financial retailer. To do this he not only acquired a number of firms to add to the product portfolio, but also changed the senior management team to reflect the changed strategy. For example, Thorne joined as FD in 1999, bringing with her experience in retailing financial services. The increased financial resource needs to finance the expansion of the firm, is reflected in the increased levels of debt during the same time. Monitoring as the third governance function had a different importance. Being a financial retailer, monitoring and safeguarding of customer deposits is paramount and a critical function of the board. Nevertheless it was seen as arising from the strategy of the firm. Monitoring was seen as the oversight of the implementation of the strategy that was decided by the board and thus the aim of monitoring was to ensure that executive directors properly implemented the boards will.

2. What differences in board processes can be identified across the different life-cycle phases?

Focusing on two very distinct and different stages of Bradford & Bingley's transformation, Chapter 6 examined how the board worked and which factors were influential in decision-making. To do so, it used the upper echelons perspective (UEP) to complement the analysis in Chapter 5. In analysing board processes during these two periods (1 and 4), two sub-questions were of particular interest and are discussed in detail below. First, the impact of contextual factors is considered and second, the impact of board changes on decision-making processes is discussed.

a. How did contextual factors impact on decision-making processes?

<u>Two contextual factors emerged as particularly important. Economic Context and Firm Culture</u>. Economic context, as discussed in Chapter 5, was very important in the decision to hire Christopher Rodrigues. By hiring Rodrigues, a building society outsider, and giving him the task of transforming the society, the society fundamentally changed. The impact of Rodrigues as a catalyst for change on the other constructs cannot be underestimated. For example, the turnover in directors, together with a sharper focus on commercialisation and professionalisation impacted Mediating Strategy Processes and, most importantly TMT Decision-Making, as discussed in Chapter 6. Consequently, board discussions were generally more robust and executives were more demanding of non-executive directors in their engagement with the firm and in their participation in the decision-making process. <u>Thus this demonstrates how the economic environment can impact on decision-making through changes in the TMT Characteristics.</u>

<u>Culture emerged as the second important contextual factor impacting the three constructs of the upper echelons perspective that were considered</u>. Boardroom culture was seen differently in the two periods considered in Chapter 6. Generally, boardroom culture was very important in how directors viewed the quality of decision-making on the board. <u>Culture is depended on the directors 'living it' and thus culture changed over time.</u> In the beginning of Period 1, Bradford & Bingley was a "*cosy Yorkshire Mutual*" that was settled in its routines where decision-making was concentrated in the hands of a few managers. The arrival of Rodrigues also meant a change of boardroom culture <u>fundamentally transforming the way the board worked</u>. He integrated non-executive directors into the decision-making processes, with a focus on vetting proposals and <u>robustly discussing issues</u>. This changed the culture on the board and was perceived to be important in transforming the firm. Once the new culture had been established, TMT Characteristics and composition changed in accordance with the new vision of the board. Rodrigues thus hired executives which were able and willing to work in the new

environment, replacing executives who did not agree with the new style or did not have the required skills.

Culture is more than a context because it is lived and created by the directors on the board, especially the chairman and chief executive. Because culture is dependent on individuals and the team they form, it will change with changes in key board positions, as has been demonstrated in Chapter 6. Within each chair – chief executive regime, culture is path dependant and can only change with the support of both the chairman and chief executive and is further dependent upon other directors accepting the change. The discussion in Section 5.4, illustrates a case in which some directors were not willing to accept the new culture and thus elected to leave the board. Hence it can be said that culture permeates all corporate governance processes.

b. How did board changes impact on decision-making processes?

Previous research (for example, Roberts (2002)) has already investigated the role of the chairman at the apex of the organisation. This research considered the impact of changes in the upper echelon of the firm on board processes. In particular, board culture has emerged as a major determinant of the perception of these board processes and the quality of decision-making.

As previously discussed above, the chairman and chief executive are at the apex of the organisation and mutually set the tone of the board. In addition to board culture, the agreement between them on the strategic direction of the firm, is important in shaping organisational outcomes. In interviews it emerged that only a good quality and close working relationship will facilitate constructive change. The relationship between the chairman and chief executive is hence important and their general agreement on board culture enables a productive working environment.

While the general thrust of decision-making was seen as consensual, open and collaborative, there were differences in how the boards operated. While the Mackinlay-led board had a larger network of key directors, which were instrumental in decision-making, the Pym-led board was signified by a duopoly of the chairman and managing director. This duopoly was however challenged by the remaining NEDs, demonstrating the strength and independence from the chairman.

The differences between the Mackinlay-led, Pym-led, and Kent-led boards, illustrates how the tone on the board may have affected decision-making. The Mackinlay-led and Pym-led boards were both seen as working exceptionally well and were regarded to be "*as good as it gets*" in terms of decision-making. In contrast the Kent-led board was seen as more aggressive with Kent generally having a firm idea of where he wanted the discussion to go. This led to directors not always being able to express their opinion fully. An additional difference between Mackinlay and Kent was the degree of involvement of each in the firm. Whereas Mackinlay, despite being generally involved, was described as "*more arm's length*" and "*hands off*", Kent was seen as very involved, which is underlined by the fact that he used Bradford & Bingley's London headquarters as his main base of operation for a variety of his non-executive roles. Pym, as discussed in Section 6.4.4 was also more involved in decision-making.

Thus, these findings add to existing research by arguing that the links between influence and power in decision-making are dependant on how the relationships of the upper echelon concentrate or distribute power among its members. Furthermore, the way the chairman manages the board, in particular how he engages and relates to board members inside and outside the boardroom, is instrumental in shaping the perceptions of decision-making of the board. This goes beyond the quantity of engagement, as demonstrated by the Kent-led board, and highlights the importance of the quality of engagement as demonstrated by the Mackinlay-led board.

7.3 Contribution to Knowledge

This research contributes to knowledge in a number of ways. First, <u>this study is novel in combining the corporate governance life-cycle theory and upper echelons perspective to investigate structural and behavioural changes</u> during the transition of Bradford & Bingley from building society to bank and nationalised institution. As the focus of this research is on the micro-processes of transition and change between and within life-cycle stages, the combination of these two theories allowed a better explanation of board processes and behaviours in the different stages of B&B's organisational life. In doing so, the thesis did not take a narrow view of theory as a set of strict procedures to follow, but used both theories as a guide to shed light onto the processes and perceptions of organisational change at Bradford & Bingley.

Second, <u>in studying transitions between different life-cycle stages, this research addresses a gap in the corporate governance life-cycle literature</u>. In particular, in Chapter 5, the transition from the life-cycle stage of maturity to reinvention and from reinvention to decline are investigated. By exploring the process of change between, but also within stages, it adds to the understanding of micro-processes and causalities in life-cycle transitions. In addition, the thesis addresses another area of limited research in the corporate governance life-cycle literature, by using a longitudinal, cross-temporal, rather than cross-sectional approach.

Third, <u>this research presents evidence of different approaches and attitudes towards governance functions within the corporate governance life-cycle.</u> During Period 1 non-executive directors displayed a managerial attitude towards governance, ranking strategy as most important and monitoring least. In contrast, during Period 4, the board was much more constraint in its managerial influence and hence monitoring was its primary function.

Fourth, within the corporate governance life-cycle, ‘Revival’ was added as a fifth stage, complementing the stages of Inception, Growth, Maturity and Decline. While previous research has shown that life-cycle stages do not need to follow each other chronologically, this research further stresses the importance of not interpreting the model as static. In particular, it has been shown that life-cycle stages are overlapping and their boundaries are fuzzy, hence the identification of transitions between stages can only be made ex post. That there are periods of transition is also reflected in governance functions changing gradually over time, rather than abruptly at the end or beginning of a new stage; <u>hence this research refines understanding of the corporate governance life-cycle</u>.

Fifth, building on qualitative research in governance, and using the upper echelons perspective as a framework, the governance processes and perceptions of directors have been analysed in Chapter 6 with a focus on identifying the impact of board composition and context on board decision-making and organisational outcomes. Organisational outcomes, though not explicitly studied in Chapter 6, have been discussed in Chapter 5 and provide the background on which to examine the board decision-making processes. In doing so, <u>this research contributes to knowledge by demonstrating how company and boardroom culture is used and perceived differently by top management team members across time</u>.

7.4 Limitations of this Research

All research has limitations and this study has some limitations as a result of the methodological choices made. The choice of a single case study as the study format limits the generalisability of the findings and furthermore limits the opportunity to compare findings to other cases. However, the choice of the single case study method was made deliberately, considering the following issues. As an objective of this research was to generate in-depth data that could identify nuances in board processes over time, and explore decision-making within and across life-cycle stages, a single case study is well suited to meet that objective. Generalisability and breadth of data has thus been traded for a detailed investigation of a particular, and interesting, case.

A related limitation arising from the case study is the, in some respects, limited availability of data. Attempts to access the Bradford & Bingley archives were denied, thus depriving this research of potentially valuable information, such as minutes of board meetings. This lack of internal information was ameliorated in two ways. First, a broad collection of documentary evidence was collected, including official firm publications, as well as newspapers, magazines, commentaries or reports on the company. Not all evidence is available online and consequently some journeys had to be made to visit the Building Societies Association archives in London. It is thus possible that some relevant documents have been missed during these visits. Second, interviews with key decision-makers were sought and conducted, thus giving an inside view of the boardroom.

Finally, the setting of this study limits the choice of method. As this research is focusing on historic events, some methods which have been shown to yield interesting results in board process research such as ethnography (Maitlis, 2004; Parker, 2007a) are unavailable. In addition, gaining access to the board of a financial institution to conduct research is very difficult due to board members' concerns over future liability, and thus very unlikely. Hence, interviews are considered to be a suitable substitute (Roberts et al., 2005) in lieu of direct access. The combination of documentary sources and interviews was thus deemed appropriate to address the research questions.

7.5 Directions for Future Research

There are a number of possible directions for future research arising from this study. First, the evidence in the empirical chapters suggests that the concepts of board(room) culture and firm culture need to be explored further; in particular their impact on constructs of the UEP and governance functions within the corporate governance life-cycle and life-cycle transitions.

While there is literature on boardroom culture and board processes (for example (Maitlis, 2004; Parker, 2007b), this research has highlighted that there is scope to explore the link between boardroom culture and firm culture in new directions. In particular, cultural change was a prominent feature in Period 1 (1995 – 2004) and the mechanisms and processes of cultural change from the top warrant further study. In addition, the possible obstacles and factors of failure of cultural change should also be considered in future studies. For example, the understanding of firm and board culture by directors changed between Period 1 and 4 and investigating the how and why of this change may contribute to the understanding of how firm and board culture are linked and how they change over time.

Second, this study only investigated one actor – the Top Management Team. While the upper echelons perspective specifically considers only the 'upper echelon' of the firm, that is, directors, further research could include a number of other significant actors (for example building society members, debtors, investors, shareholders, analysts and customers) that influence directors when making decisions. In this thesis these other actors are currently presented and discussed as one group (Contextual Factors – Section 6.2) and are not considered independently. Furthermore, future studies could link these actors to the change in firm and boardroom culture. For example, how was cultural change induced from the top, perceived by other employees including senior managers. Similarly, these organisational changes would not have only impacted other stakeholders, such as building society members or, later, shareholders, but also other interested parties such as financial analysts and customers. How did these other interested parties view the cultural changes, were they aware of them and how were they impacted by the changes?

Third, this research traced the organisational development of Bradford & Bingley over a period of 15 years using a combination of documentary sources and interviews. Although every attempt was made to provide an in-depth examination of decision-making on the board, further refinement could yield interesting results. For example, in forgoing a longer period of examination, a study focusing on decision-making in a particular case, such as securitisation or purchases of third party mortgages, could offer a different perspective on board processes. This might call for an ethnographic approach, as employed by Maitlis (2004) and (Parker, 2007a; Parker, 2007b; Parker, 2008); however it raises questions regarding the availability of access to boards. Given the sensitive nature of board decision-making, especially in financial institutions, access is expected to be difficult. Similarly, studies of organisational failure do not lend themselves to ethnography as failure can only be determined ex post. However, in following the purpose of examining board decision-making, the study of gatekeepers and agenda setting could yield further insight into how boards not only control, but are also controlled by those in positions of defining the agenda or of being a gatekeeper. The paper by McNulty & Stewart (2014) is a first study addressing the role of gatekeepers.

Fourth, and finally, this study could be extended to investigate (a) another failed institution such as Alliance & Leicester, the Co-operative Bank, or the former Chelsea Building Society to confirm and contrast the findings of this research, or (b) an institution that was exposed to similar challenges as Bradford & Bingley, yet remained independent such an existing building society, for example the Nationwide. Exploring the topic of transformation and failure, or lack thereof, could provide further insights into the processes of change within and across life-cycle stages, as well as the perceptions and motivations of key decision-makers, thus creating a richer picture of organisational change in UK financial institutions.

7.6 Personal Reflection on the Research Process

Writing this thesis was a long process with a steep learning curve. When I started this project I was less familiar with about qualitative research and was not looking to do a qualitative PhD, yet this is the end product of my efforts. Coming from a quantitative background in economics, finance and accounting, learning qualitative methods proved challenging but also rewarding. Having been immersed in both types of research methods helped me in understanding the advantages and disadvantages of each, as well as a better understanding of when to use each method.

Having finished coding the interviews manually using text markers, the thought occurred that using a qualitative analysis software might have been useful in transferring the coding and quotations into my chapters. However, I made a conscious choice of not using qualitative software to avoid sitting in front of a computer screen, as it is not conducive to creative thinking for me. To reflect on the interviews, to code them and to form a concept of the issues raised in these, a clear mind away from the computer is essential and hence no qualitative software was used, notwithstanding its advantages in retrieving information. In addition, it was only possible to do so because of the limited number of interviews conducted.

It took me the better part of the PhD to develop a workflow that is supportive of my writing. Early on I experimented with a variety of different software packages, such as MS Word, as well as Latex. However, I found neither conducive in writing due to their linear structure. There is nothing worse than a white, empty page on the screen waiting to be filled. The majority of my writing has therefore been completed using Scrivener, a software developed for creative writing, that combines note-taking and writing in a non-linear fashion. Using this software was liberating in writing effectively and quickly while having my notes available. At the end of the process I only had to transfer the written text into a word document and apply formatting styles and cross-references as well as bibliographic entries.

Another challenge during my PhD was time and task management. Besides being a full time PhD student, I was also a Teaching Assistant in the department with significant seminar teaching responsibilities, as well as being a PhD Representative for two and a half years. Combining all these roles required a lot of time and task management, which, again, was a steep learning curve but also a good preparation for being an academic. During my four years of study I thus learned to schedule and prioritise tasks and to work to deadlines. It was not always easy.

Finally, dealing with stress and fatigue, especially in my final year was challenging. At the end of the project, when the end is almost in sight, but not just yet, motivation to write and finish is hard to come by. Besides the support of my supervisors and wife, meditation proved to be particularly useful. By chance I found out about Raj Yoga, a form of open eye meditation, which was immensely useful in maintaining inner calm and thus relieving stress. Feeling less stressed also improved my energy levels and reduced the feeling of fatigue. I am very lucky to have found this useful tool.

So, would I do the PhD all over again? Yes, I would and I would not want to miss any of the experiences of the past four years. The experiences and lessons learned are part of my life and shaped my future in ways I can not yet know. But I would do it again.

Appendices

A.1 Time line: Building Societies History

Year	Act	Description
1775		Ketley's Building Society, the first known society was founded in Birmingham. The earliest societies were 'terminating', and wound up when all their members had been housed.
1793	Friendly Societies Act	Recognises Aims and Objectives of Friendly Societies
1825		The Jubilee of the industry – over 250 societies in existence throughout the country.
1836	Building Societies Act	The Regulation of Benefit Building Societies Act officially recognised societies for the first time and was the first legislation dealing specifically with the industry. It Offered legal recognition in their own right and the power for societies to deposit funds in savings banks.
1845		The first known permanent society formed – The Metropolitan Equitable.
1860		Over 750 societies in existence in London and 2,000 in the provinces.
1869		The Building Societies Protection Association formed in London by James Higham to act as the national body for the industry.
1870		The Royal Commission on Friendly Societies included building societies in its enquiries. Many had retained the features of members balloting for loans, thus attracting gamblers as well as genuine house-buyers.
1874	Building Societies Act	Based on the Royal Commissions Report the act offered voluntary Incorporation and limited liability for new societies only.
1892		The spectacular collapse of the largest building society in the country – The Liberator Permanent Benefit – due to the financial activities of its founder.
1894	Building Societies Act	This year marked the first compulsory registration for all societies. The act also closed loopholes in the 1874 act to protect against a re-occurrence of the Liberator débâcle.
1910		1,723 societies in existence with 626,000 members and total assets of over £76m.
1926		The Building Societies Protection Association was

Year	Act	Description
		renamed as the Building Societies Association. It had 310 member-societies.
1939	Building Societies Act	Established legal classes of collateral security which societies could accept, and was passed with support of the government and Building Societies Association.
1960	Building Societies Act	The Act sought to ensure that liquid funds were both liquid and safe. It established that new societies must have 10 founder members with £500 each. It also increased the power of the Registrar, who was given powers to veto advertising and the acceptance of funds. In addition, new directors were barred from acting as valuers and members received the right of proxy vote.
1962	Building Societies Act	This Act merged provisions of the 1874, 1894, 1939 and 1960 Acts.
1981		The BSA mortgage rate cartel collapsed after the largest Society, Abbey National, left the cartel in 1979. Societies were now able to compete for retail deposits.
1983		Societies allowed access to wholesale funds and sterling Eurobond market.
1986	Building Societies Act	This Act abolishes all previous legislation, enabling societies to exercise a wider range of powers in the field of housing and personal banking services. It established the Building Societies Commission as societies' regulator, and also had provisions for Societies to demutualise.
1989		Banks and societies are allowed to issue sterling commercial paper. Furthermore, Abbey National passes a resolution enabling it to convert to plc status. From July 1989 the Abbey National is no longer a building society.
1991		Societies are permitted to issue permanent interest-bearing shares (PIBS).
1995		Cheltenham & Gloucester Building Society converted to plc status and became immediately part of the Lloyds Bank Group – the first society taken over by an existing organisation.
1997	Building Societies Act	The 1997 Act was enacted. It amended, but did not replace, the Building Societies Act 1986. The Act introduced a more flexible operating regime for societies, which included a package of measures to increase the accountability of building societies' boards to their members.

Year	Act	Description
		Several of the largest Building Societies including the Halifax, Alliance & Leicester, Northern Rock, Woolwich and Bristol & West converted to plc status, with Bristol & West being taken over by Bank of Ireland.
2000		Bradford & Bingley Building Society converts to plc status. It is the first and only demutualisation voted for by members' against the expressed wishes of its management.
2001	The Financial Services and Markets Act 2000	This Act disbanded the Building Societies Commission and its regulatory powers were transferred to the newly formed Financial Services Authority.
2005		Britannia Building Society buys the savings and branch business of Bristol & West plc, the first remutualisation of a converted institution. The Child Trust Fund was introduced.
2007	The Building Societies (Funding) and Mutual Societies (Transfers) Act 2007	Some of the main provisions of this Act included an increase of the current non-member funding limit from 50% to a maximum of 75%; ensuring that ordinary shareholders would rank equally with ordinary creditors by altering priorities on dissolution and winding-up, and enabling the transfer of a building society to a subsidiary of another mutual.
2008	The Banking (Special Provisions) Act 2008	Following the collapse of Northern Rock, this emergency legislation was introduced, enabling the government to nationalise Northern Rock and to provide temporary powers to intervene in future banking collapses. It was subject to a 12 month sunset provision.
2009	The new Banking Act 2009	Special Resolution Regime for deposit-takers introduced. Dunfermline Building Society's retail and wholesale deposits, branches, head office and originated residential mortgages were transferred to Nationwide Building Society using the new resolution regime. In the same year Britannia Building Society merged with the mutual Co-operative Financial Services – the first merger between a building society and a mutual bank.
2010		The three main political party manifestos recognised the importance of mutuals, both within financial services and wider public services. In May the Coalition Government pledged in its Coalition Agreement to promote mutuals. *"We want the banking system to serve business, not the other way round. We will bring forward detailed*

Year	Act	Description
		proposals to foster diversity in financial services, promote mutuals and create a more competitive banking industry."
2011		In November Northern Rock was sold to Virgin Money, disappointing those that wanted it to be remutualised.

Sources: Adapted from Building Societies Association, Ashworth (1980), Boddy (1980), Boleat (1965), Cleary (1965), Schönenberg (1993)

A.2 Building Societies Branches

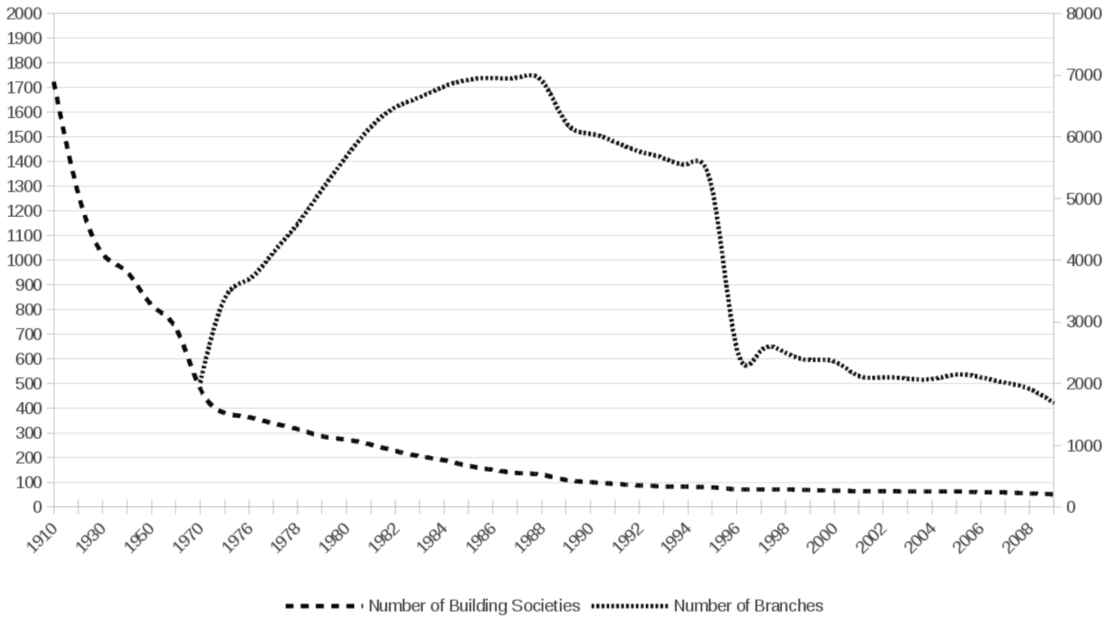


Figure A.2.1: Building Societies and Branches 1910 – 2010

A.3 Timeline of the Transformation of B&B (1995 – 2005)

Year	Event
1995	Joint Venture – Acquisition of mortgage book from Platform Home Loans (Lehman Bros) for £78m.
1997	Purchase of Mortgage Express for £64m in May from Lloyds TSB.
1998	Acquisition of Blackhorse Estate Agency from Lloyds TSB.
2000	**February –** Acquired John Charcol Holdings Limited, the UK's leading mortgage broker, from Warburg, Pincus for £100m.
	March – George Cox, Director-General of the Institute of Directors, joins the Board of Bradford & Bingley as a non-executive director.
	March – Bradford & Bingley Group in joint venture with U.S. market leader Alltel for UK and European mortgage processing.
	July – Voting members overwhelmingly endorse a proposal from the Board of Directors to convert to a public limited company.
	September – Bradford & Bingley Relocation Services, the building society's relocation division, sold to Cendant Corporation, the leading global provider of real estate, travel and direct marketing-related consumer and business services.
	December – Bradford & Bingley Building Society’s shares float on the London Stock Exchange on December 4 at 240p. Bradford & Bingley plc is formed.
2001	Partnership with Rightmove, cessation of Bradford & Bingley web page to sell/list properties.
2002	**November –** Roderick Kent assumes the role of Chairman, on the retirement of Lindsay Mackinlay.
2003	**January** – B&B purchases Alltel Mortgage Solutions Ltd on January 3rd.
	April – Diana Courtney retires. Trevor Lewis and Mark Smith retire later this year. Steve Webster joins the boards as Chairman of the Audit Committee.
	Two acquisitions in Wealth Advice business: Holden Meehan Ltd (one of the UK's leading fee-based IFA businesses) and Aitchison & Colegrave (financial advice to high net worth individuals).
	December – Bradford & Bingley PLC urges former members of Bradford

Year	Event
	& Bingley Building Society, who have so far failed to collect their 250 demutualisation shares, to claim their entitlement.
2004	**March –** The Board announces that it has appointed Steven Crawshaw as Group Chief Executive, following the resignation of Christopher Rodrigues.
	May – Bradford & Bingley announces the outcome of its strategic review. The main conclusions are: Continue to develop strong specialist lending business; Refocus and grow branch-based retail business; Reduce costs in these two core businesses; Dispose of non-core businesses.
	August – Ian Darby resigns from the Board.
	November – Bradford & Bingley plc and Legal & General Group plc announce new business partnership. Under the arrangement, Bradford & Bingley offers to its customers a range of Legal & General investment and protection products.
	December – Bradford & Bingley plc receives notice from the Financial Services Authority (FSA) that it is fining the company £650,000 in relation to the sale of Structured Capital At Risk Products and With Profit Bonds. The deficiencies occurred between January 2001 and December 2002 and relate to a failure to make suitable recommendations and a failure to maintain adequate records of customers and sales. During the review of its business the company acknowledged the failures in its recommendations and record keeping in this period and agrees to pay compensation in respect of any customer losses. It is estimated this could total around £6m.
	December – B&B sells its Charcol mortgage broking business and its estate-agency business to focus on mortgages under its new chief executive Steven Crawshaw.
2005	**September –** Chris Gillespie joins the Board as Group Lending Director.
	October – Chris Willford appointed to the Board as Group Finance Director.

A.4 Timeline of the Decline of B&B (2006 – 2010)

Year	Event
2006	**May –** Andy Wiggans joins Bradford & Bingley Group to the post of director of mortgage products.
	June – Bradford & Bingley links with The Co-operative Bank to offer loans.
	November – Bradford & Bingley stops selling mortgages of other banks and building societies and begins selling own-branded home loans in its 205 branches across the UK.
2007	**May** – Two new executive Board Directors; Roger Hattam appointed as Group Product and Marketing Director and Mark Stevens as Group Sales Director. Both are internal appointments, Roger and Mark have sat on the Group Executive Committee for the past two years and between them have 20 years experience at Bradford & Bingley. Chris Gillespie the current Group Sales Director, has tendered his resignation from the Board and will leave the Group after a short handover.
	April – Bradford & Bingley plc announces that it has signed an agreement with Kensington Group plc, that enables the Group to acquire up to £2 billion of prime residential mortgage portfolios in total over the next two years.
	November – Bradford & Bingley agrees to sell its entire housing association book to Dexia, following a review of the growth potential and capital utilisation of these assets. It also agreed to sell a portfolio of commercial property loans of £2bn to GE Real Estate, following a review of the growth potential and capital utilisation of these assets.
2008	**April –** B&B denies a rights issue in order to bolster its weak balance sheet.
	May – B&B asks shareholders for £300 million via a rights issue. The new shares are offered at 82p – a 48 per cent discount to the previous evening's close.
	June – Chief executive Steven Crawshaw steps down due to ill-health.
	June – Rod Kent becomes executive chairman. B&B issues profit warning and announces that the bank has agreed to sell a 23 per cent stake to private equity firm Texas Pacific, in a move to bolster its finances alongside a rights issue, raising £400 million in total.
	August – The bank names former Alliance & Leicester boss, Richard Pym as its new chief executive. The £400m emergency rights issue is only 28 per cent subscribed.

Year	Event
	August – B&B announces first half losses, after write downs on its investments and rising bad debts. The firm's pre-tax losses are £26.7 million – compared to £180m of profit in the same period in 2007. Shares fall to 49p.
	September – Bradford & Bingley announces a series of initiatives to streamline its business operations and improve efficiency. Realignment of operations include: Closure of the mortgage processing centre in Borehamwood, Hertfordshire; Significant reduction in intermediary sales team; Redundancy of all remaining branch based mortgage advisors.
	The bank axes 370 jobs under a cost-cutting drive but fails to boost the share price. It is now effectively closed for new mortgage business. The loss of 370 roles, has a targeted annualised cost savings of £15 million and anticipated one-off costs of £14 million.
	September – Bradford & Bingley nationalised. Santander purchases deposit-taking part of B&B.
	November – Four Non-Executive Directors, Rod Kent (chairman), Nick Cosh (deputy chairman), Ian Cheshire and Steve Webster step down from the Board with effect from 14 November 2008. Richard Pym, the current Chief Executive, has been appointed Executive Chairman.
2009	**April –** Mr Richard Banks appointed as Managing Director.
	June – Christopher Wilford (FD) and Roger Hattam (OD) resign.
2010	**January –** Bradford & Bingley welcomes announcement by the European Commission approving its Business Plan and application for State Aid.
	October – Bradford & Bingley and Northern Rock Asset Management are merged as UKAR.
	UK Asset Resolution is established by UKFI as the new holding company for Bradford & Bingley plc and Northern Rock (Asset Management) plc. UKAR has been established to manage the closed mortgage books of B&B and NRAM on an integrated basis.
	December – The Boards of UK Asset Resolution Ltd, Bradford & Bingley plc and NR (Asset Management) plc announces that Bob Davies, non-executive Director, will be resigning from the three Boards with effect from 31 December 2010. Sue Langley becomes chairman of the Remuneration Committees with effect from 1 January 2011.

B UK Code of Governance 1992 – 2010

Year	Report/Review	Description
1992	**Cadbury Report**	- Cadbury Committee established Guide of Best Practice for all UK-listed companies - Code is not legally binding - Introduced ‘Comply or Explain’ principle; firm’s that do not comply with all aspects of the code have to explain in the annual report the reasons why they are not in compliance - The Report covered three main areas: the board of directors, auditing, and the role of shareholders - Key recommendations of the Committee covered the following areas: - Operation of the main board - The establishment, composition, and operation of key board committees - The importance of, and contribute by, non-executive directors - The reporting and control mechanisms of the firm
1995	**Greenbury Report**	- Review of Directors remuneration and disclosure of remuneration - Report made recommendation about the disclosure of individual directors’ remuneration packages and company remuneration policies - Also recommended firm’s to establish Remuneration Committees staffed with independent non-executive directors - Recommended linking the performance of the company and individual directors to directors’ rewards

Year	Report/Review	Description
1998	**Hampel Report**	- The Hampel Committee was set up in 1995 to review the implementation of Cadbury and Greenbury - It endorsed the overwhelming majority of findings of the previous reports - The Code however shifts the focus of corporate governance to primarily shareholders, and away from a more stakeholder-centric position of the previous two reports. Nevertheless it affirms that directors are responsible to maintain good relations with all stakeholders, not only shareholders
	Combined Code	- The Combined Code unified the recommendations of the Cadbury, Greenbury and Hampel reports. - It establishes the requirement for directors to implement and maintain a system of internal controls
1999	**Turnbull Report**	- The Turnbull Report focused on the internal control provisions of the Combined Code (1998) - It provides specific guidance on best practice of implementing a system of internal controls

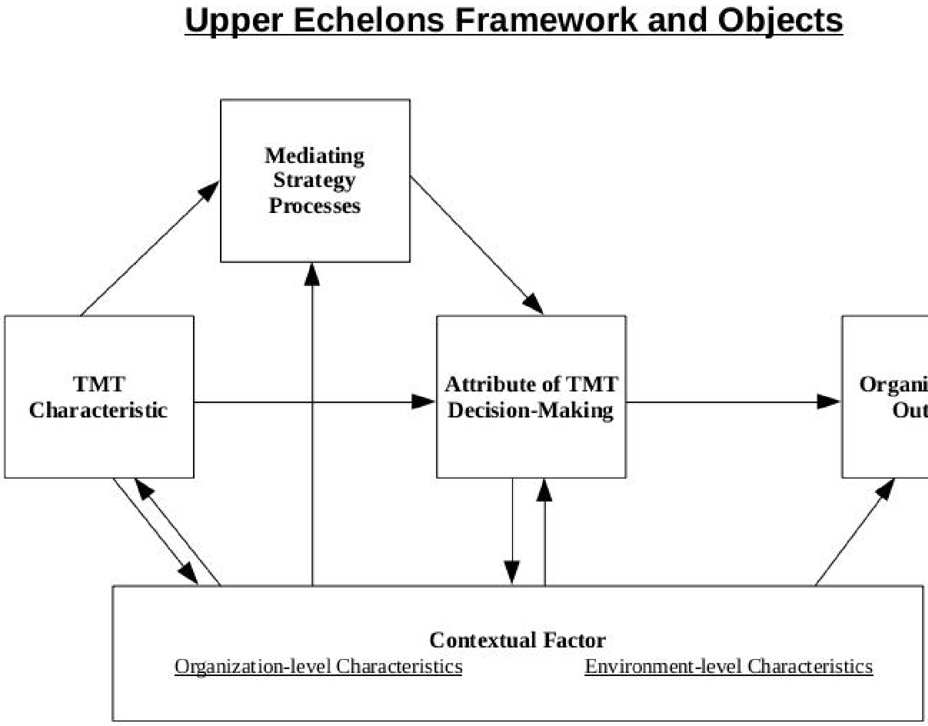
Year	Report/Review	Description
2003	**Tyson Report**	- Revised Combined Code includes all prior Governance Reports
	Higgs Report	- At least half of the board should be independent non-executive directors
	Smith Report	- The chief executive should not become chairman of the same company
	Combined Code (Revised)	- The chairman should be independent on appointment
		- A senior independent director should be appointed
		- The board should undertake period performance reviews
		- Institutional investors should avoid box ticking when evaluating the governance of their investees
		- Companies should adopt rigorous and transparent recruitment procedures
		- Non-executive directors should only be reappointed after 6 years subject to a review of their performance
		- Non-executive directors are no longer considered independent after 9 years and must be reappointed annually
		- Full time executive directors should not have more than one FTSE100 non-executive directorship/ chairmanship
2006	**Combined Code (Revised)**	- The chairman may serve on the remuneration committee if independent on appointment
		- Introduction of ‘vote withheld’ option on proxy appointment forms
		- Companies should publish details of proxies lodged on their website
2008	**Combined Code (Revised)**	- Individuals may now chair more than one FTSE100 company
		- For companies outside FTS350 chairman may serve on audit committee if independent on appointment
	Revised Guidance on Audit Committees	- Changes to the appointment process and considerations of the audit committee
		- Updated guidance to be in line with Audit Practice’s Board (APB) Ethical Standards

Year	Report/Review	Description
2009	**Turner Review**	- A review on the causes of the financial crisis - Aimed to make recommendations to improve regulation and supervisory approaches to improve the robustness of the UK financial system - Remuneration that encouraged risk-taking was identified as one of the major causes of the financial crisis - Review concluded that more emphasis must be laid upon risk, risk management and good internal controls - Remuneration committees have a special role in aligning compensation and risk
	Walker Review	- Independent review of the governance of banks and other financial institutions comprising of 39 recommendations: - 5 recommendations for board size, composition and director qualification - 8 recommendations about board performance evaluation and the functioning of the board - 9 recommendations on the role and engagement of institutional shareholders - 5 recommendation on risk governance (especially risk committees) - 12 recommendations regarding board remuneration (including the remuneration committee) - Some of the recommendations were implemented in the UK Corporate Governance Code by the FRC, while others were implemented through the FSA

Year	Report/Review	Description
2010	**UK Corporate Governance Code**	- Following a consultation and progress report by the FRC, the UK Corporate Governance Code was updated, incorporating some of the recommendations of the Walker Review. There were six significant changes: - A company's business model be explained - Performance-related pay should align with long-term interests of the firm as well as risk policy and systems - All FTSE350 directors should be re-elected on an annual basis to increase accountability - Principles on the leadership by the chairman, the responsibilities of NEDs to challenge executives, and time commitment expected of directors to encourage substantive debates in boardrooms - New principles on the appointment and selection of directors, in particular directors should be appointed on merit based on objective criteria and should take account of board diversity to avoid group think - The chairman should hold regular development reviews with each director and board effectiveness should be reviewed at least every three years with external help

Source: (Solomon, 2013; Mallin, 2013)

B.1 Upper Echelons Theory Framework



Source: (Carpenter & Reilly, 2006)

Figure B.1.1: Upper Echelons Theory Framework

C Participant Information Sheet

THE UNIVERSITY of York

The York Management School
University of York
Freboys Lane
Heslington
YO10 5GD

Tel.: 01904 325 062

Participant Information Sheet

Reference Number: «Ref_Number»

Bradford & Bingley: Board Composition and Decision-Making Processes

You are invited to take part in a research study which is being conducted as part of a Doctoral Research degree at The University of York by Mr Matthias Hambach, Professor Josephine Maltby and Mr Philip Linsley. We appreciate your participation which we believe will greatly enhance the findings of this study.

Before you decide whether or not to take part, it is important for you to understand why the research is being undertaken and what it will involve. Please take time to read the following information carefully and do ask if there is anything that is not clear or if you would like more information.

Purpose of this Research

The executive and non-executive board are central to companies' internal decision-making. The composition of the board and interaction of board members and, in particular the underlying board processes of decision-making and conflict resolution, are important factors in understanding outcomes for the company.

Bradford & Bingley's transformation from building society to bank provides a case study setting of how the composition of the board of directors changes with economic need and how these changes impact on internal decision-making and strategy.

The aim of this study is to explore the impact of these changes on the board of directors and its impact on decision-making processes and conflict resolution procedures.

Your Involvement

As a former director/executive of Bradford & Bingley you have been identified as a potential participant in this study for your knowledge of top management decision-making processes and your extensive working experience at a senior level.

If you decide to take part in the research, you will be interviewed in a place that is convenient for you. The interview will take approximately one hour, and, with your permission, will be audio-taped. Before we start the interview, you will be given an opportunity to ask questions and I will ask you to sign a written consent form confirming that you are happy to take part in the study.

Your participation is entirely voluntary. You are free to withdraw from the research at any time without giving a reason and without any detriment to yourself or your organisation.

Possible Benefits

This is an opportunity for you to share your professional knowledge and experience to inform research into corporate governance, adding your views to the debate. The findings of this study will help to reach a better understanding of board decision-making processes and may in the future lead to better corporate governance guidelines being published.

Risks or Inconvenience

There are no risks attached to this study. Your interview scripts will be kept strictly confidential and are available only to the researchers.

The Information you Provide

Interview tapes will be transcribed. All tapes and transcriptions will be locked in a safe place. All information collected during the course of the study will only be viewed by the research panel committee, and remain strictly confidential. The confidential handling, processing, storage and disposal of data will be in accordance with Data Protection Guidelines.

At the end of the study, this information may be used to write up a PhD thesis, and may be used in publishing articles in professional and academic journals and conference presentations. The names of the people, who have taken part in the research or any other information that could identify them, will not appear in the thesis or in other written forms when the study is completed.

All who take part in the research will be sent a summary of the final report, if they indicate so. When the study is completed, all the information will be kept in a locked filing cabinet in a storeroom of the York Management School, University of York for 5 years and will be destroyed after that time.

What is the next step?

If you are willing to participate in the study, please complete the reply slip and return in the provided envelope. We will contact you after receiving your reply slip to arrange the date and time of the interview. A consent form can be signed on the day of interview. The consent form will not be used to identify you. It will be filed separately from all the other information. However, you may keep this sheet for reference.

Further Information

If you have any concerns or questions about this study, please feel free to contact the main researcher Mr Matthias Hambach, on 078 072 111 39 or e-mail mh841@york.ac.uk.

C.1 Reply Slip

THE UNIVERSITY *of York*

Reply Slip

Reference number: «Ref_Number»

The York Management School

University of York
Freboys Lane
Heslington

YO10 5GD

Tel +44 (0) 1904 325062
Fax +44 (0) 1904 325021

Bradford & Bingley: Board Composition and Decision-Making Processes

Name: «First_Name»«Last_Name»

Phone Number: «Phone_Number»

Email Address:«Email_address»

Address: «Address_Line_1»
«Address_Line_2»
«City»
«Post_Code»

- I am interested in taking part in the above study and willing to be contacted by phone or email to discuss possible partic[ ]n. *(Please tick box)*

C.2 Consent Form

THE UNIVERSITY *of York*

CONSENT FORM

The York Management School

University of York
Freboys Lane
Heslington

YO10 5GD

Tel +44 (0) 1904 325062
Fax +44 (0) 1904 325021

Reference number: «Ref_Number»

Bradford & Bingley: Board Composition and Decision-Making Processes

Researcher: Matthias Hambach

		Please tick each box
1.	I agree to participate in this study	
2.	I understand that my participation in this study is voluntary and I am free to withdraw from the research at any time without giving any reason and without any detriment to myself and my organisation	
3.	I confirm that I have read and understand clearly the information sheet for this research and have had the opportunity to ask questions about the study. These questions have been answered satisfactorily by the researcher.	
4.	I understand that the interview will be audio-taped	
5.	I understand that only the members of the research team have access to the information collected during the study	
6.	I am aware that the information collected during the interview will be used to write up a PhD thesis, and may be used in future research	

7.	I understand that information collected during the course of the research project will be treated as confidential. This means that my name, or any other information that could identify me, will not be included in anything written as a result of the research	
8.	I understand that when this research is completed the information obtained will be retained in locked filing cabinets in a storeroom in the York Management School, University of York, for 5 years and will be destroyed thereafter	
9.	I would like to be informed of the outcome of the research via a report summary, and / or be informed of any future publications	

Name of Participant	Date	Signature
Name of Researcher	Date	Signature

C.3 Interview Topic Guide

Interview Topic Guide

Investigator: Matthias Hambach

Research Title: Bradford & Bingley: Board Composition and Decision-Making Processes

Introduction:

Research Background and Aim:

The executive and non-executive board are central to companies' internal decision-making. The composition of the board and interaction of board members and, in particular the underlying board processes of decision-making and conflict resolution, are important factors in understanding outcomes for the company.

Bradford & Bingley's transformation from building society to bank provides a case study setting of how the composition of the board of directors changes with economic need and how these changes impact on internal decision-making and strategy.

The purpose of the interview will be to explore respondents' views on key issues associated with this transformation process.

Assurance of Ethical Conduct

- All information will be treated confidentially and no information will be transmitted to any 3rd party, with the exception of a trusted transcription service.
- Respondents' names will not be revealed in any part of the report and their identity obscured.
- The respondent may choose not to answer any particular question.

THEMES AND ISSUES FOR INTERVIEWS

Section 1: Background about respondent and the company

- How long have you been working for the company?
- Please describe your main tasks/job functions. Which job function did you consider to be the most important?
- Were you involved in any executive or non-executive committees?
- When you joined the board were you recruited through a formal process or did social connections play an important role?

Respondents' perceived/experienced monitoring challenges (Directors only)

- In your view, how important was the monitoring aspect of your role?
- What other roles/functions did you perform? Which of your roles, including monitoring, would you consider to be the most important?
- What personal "resources" did you provide to the board, e.g. knowledge, experience, contacts?

Section 2: Board composition

- Do you think that new board members, who were appointed to the board whilst you were there, had skills, connections, etc that were different from existing members, or was there a tendency to appoint people similar to current members?
- Would you say that the members of the board complemented each other in terms of their skills/strengths?

Section 3: Job Demands

(this section is to establish the participants experienced job demands)

Respondents' perceived/experienced task challenges:

- Did the business environment become more/less fast changing during your tenure, and, as a result of this, did the complexity of the business operations change significantly?

Respondents' perceived/experienced performance challenges

(executives differ in how much performance is required of them)

- Did you experience any performance pressures, e.g. a high work load, pressure to perform, during your tenure, and how did these affect you?
- If so, do you think pressures increased during your tenure?

Respondents' ambitions

(influences level of perceived job demands)

- How would you describe your (job related) ambitions during your time at Bradford & Bingley?

Section 4: Board Processes

Respondents' concept of mediating decision-making processes

(mediating strategy processes: characteristics of top management team (TMT) will affect characteristics of strategic plans, and strategic plans will affect the nature of firm decision-making)

- How would you describe the advisory processes in place, i.e. were they more CEO-centric or team-centric?

Respondents' concept/experience of conflict resolution processes

- How was consensus usually achieved and how were conflicts/disagreements resolved?
- Did board turnover during your tenure affect these processes, and if so, how?

- How would you describe your relationship with other board members?

Respondents' view/experience of board decision-making processes:

- How did decision-making processes change as a result of board turnover during your tenure?
- How did the internal management information systems and procedures develop, and did they provide relevant and timely information for decision-making?
- Based on your experience, how would an ideal board decision-making process work? Would it significantly resemble/differ from the process you experienced at Bradford & Bingley?

D Appendix Chapter 5

Tables

in £m	**GMAC-RFC**	**Kensington**
2002	£662.20	£0.00
2003	£1,431.60	£0.00
2004	£1,265.50	£0.00
2005	£1,199.70	£206.50
2006	£2,326.00	£214.60
2007	£3,495.10	£648.40
2008	£1,302.10	£550.40
2009	£248.70	£39.50
Sub-Total	£11,930.90	£1,659.40
Total		£13,590.30

Table D.1: Third Party Mortgage Transactions

Directors Out		Directors In	
1995			
Name	George Sykes	**Name**	Mr Peter Flesher
Position	Director	**Position**	Director
Resource		**Resource**	Manufacturing, Utilities
Age	67	**Age**	60
1996			
		Name	Christopher Rodrigues
		Position	Chief Executive
		Resource	Finance, Travel
		Age	45
1997			
Name	Geoffrey Lister		
Position	Chief Executive		
Resource	Mortgage Banking		
Age	60		
Name	Steven Spilsbury		
Position	Financial Services Director		
Resource	Finance, Banking		
Age	53		
1998			
Name	Michael Pheasey	**Name**	David Woodcock
Position	Group Executive Director	**Position**	Director
Resource	Operations (Banking)	**Resource**	Property
Age	53	**Age**	59
1999			
Name	Sir Neil McFarlane	**Name**	Kevin McGuinness
Position	Non-Executive Director	**Position**	Non-Executive Director (Company Secretary
Resource	Politics	**Resource**	Banking (Bradford & Bingley)
Age	63	**Age**	51
		Name	Ms Rosemary Thorne
		Position	Director (Group Finance)
		Resource	Retail Finance
		Age	47

Directors Out		Directors In	
		Name	Mr Nicholas Cosh
		Position	Non-Executive Director
		Resource	Legal
		Age	53
2000			
Name	Mr John A W Smith	**Name**	Mr Keith Greenough
Position	Director	**Position**	Director (Lending/Savings)
Resource	Finance	**Resource**	Banking
Age	53	**Age**	50
		Name	Sir George Cox
		Position	Non-Executive Director
		Resource	Consulting (IT)
		Age	57
2001			
Name	Mr David Woodcock		
Position	Director		
Resource	Property		
Age	62		
2002			
Name	Mr Lindsay MacKinlay	**Name**	Mr Roderick Kent
Position	Chairman	**Position**	Chairman
Resource	Manufacturing	**Resource**	Finance
Age	66	**Age**	55
Name	Mr Peter Flesher	**Name**	Mr Steven Crawshaw
Position	Director	**Position**	Director (Lending/Savings)
Resource	Manufacturing, Utilities	**Resource**	Banking, Legal
Age	66	**Age**	40
Name	Mr Kevin McGuinness	**Name**	Mr Alan Shankley
Position	Non-Executive Director (Company Secretary)	**Position**	Company Secretary
Resource	Banking	**Resource**	Property Finance

Directors Out		Directors In	
Age	53	**Age**	53
Name	Mr Keith Greenough		
Position	Director (Lending/Savings)		
Resource	Banking		
Age	52		
	2003		
Name	Ms Diana Courtney	**Name**	Mr Ian Darby
Position	Non-Executive Director	**Position**	Director (Marketing)
Resource	Legal	**Resource**	Mortgage Finance
Age	63	**Age**	40
Name	Mr Mark A Smith	**Name**	Mr Robert Dickie
Position	Non-Executive Director	**Position**	Director (Operations)
Resource	Finance	**Resource**	Banking
Age	63	**Age**	44
Name	Mr Derek Lewis	**Name**	Mr Ian Cheshire
Position	Vice-Chairman	**Position**	Non-Executive Director
Resource	Legal	**Resource**	Retail
Age	66	**Age**	44
		Name	Lady Louise Patten
		Position	Non-Executive Director
		Resource	Financial Services, Consulting
		Age	50
		Name	Mr Stephen Webster
		Position	Non-Executive Director
		Resource	Accounting
		Age	51
	2004		
Name	Mr Christopher Rodrigues		
Position	Chief Executive		
Resource	Finance, Travel		
Age	53		

	Directors Out		Directors In
Name	Mr Ian Darby		
Position	Director (Marketing)		
Resource	Mortgage Finance		
Age	40		
	2005		
Name	Ms Rosemary Thorne	**Name**	Mr Christopher Gillespie
Position	Director (Group Finance)	**Position**	Director (Sales)
Resource	Retail Finance	**Resource**	Banking
Age	53	**Age**	42
		Name	Mr Christopher Wilford
		Position	Director (Finance)
		Resource	Banking
		Age	43
	2006		
Name	Mr Alan Shankley		
Position	Company Secretary		
Resource	Property Finance		
Age	57		
	2007		
Name	Mr Christopher Gillespie	**Name**	Mr Roger Hattam
Position	Director (Sales)	**Position**	Director (Operations)
Resource	Banking	**Resource**	Banking (Bradford & Bingley)
Age	44	**Age**	39
Name	Sir George Cox	**Name**	Mr Mark Stevens
Position	Non-Executive Director	**Position**	Director (Sales)
Resource	Consulting	**Resource**	Private Equity
Age	66	**Age**	38
		Name	Mr Michael Buckley
		Position	Non-Executive Director
		Resource	Banking
		Age	62
	2008		
Name	Mr Mark Stevens	**Name**	Mr Richard Pym

Directors Out		Directors In	
Position	Director (Sales)	**Position**	Chief Executive
Resource	Private Equity	**Resource**	Banking
Age	39	**Age**	
Name	Mr Robert Dickie		
Position	Director (Operations)		
Resource	Banking		
Age	49		
Name	Mr Stephen Webster		
Position	Non-Executive Director		
Resource	Accounting		
Age	56		
Name	Mr Ian Cheshire		
Position	Non-Executive Director		
Resource	Retail		
Age	49		
Name	Mr Roderick Kent		
Position	Chairman		
Resource	Finance		
Age	62		
Name	Mr Steven Crawshaw		
Position	Chief Executive		
Resource	Banking, Legal		
Age	46		
2009			
Name	Mr Roger Hattam	**Name**	Mr Richard Banks
Position	Director (Operations)	**Position**	Chief Executive
Resource	Banking (Bradford & Bingley)	**Resource**	Banking
Age	41	**Age**	
Name	Mr Christopher Wilford		
Position	Director (Finance)		

Directors Out		Directors In	
Resource	Banking		
Age	47		
	2010		
		Name	Mr Kent Atkinson
		Position	Non-Executive Director
		Resource	Finance, Accounting
		Age	
		Name	Ms Sue Langley
		Position	Non-Executive Director
		Resource	Insurance
		Age	
		Name	Mr Keith Morgan
		Position	Non-Executive Director
		Resource	Banking
		Age	
		Name	Mr John Tattersall
		Position	Non-Executive Director
		Resource	Accounting
		Age	

Table D.2: Changes on Board of Directors 1995 – 2010

Panel A	Analysis of accounts 3+ months in arrears: organic				
Arrears	**2007**		**2008**		**2009**
	30 Jun	**31 Dec**	**30 Jun**	**31 Dec**	**30 Jun**
Total					
Asset value in £m	385.3	452	714.4	1605.9	1994.7
% of book	1.34	1.46	2.16	4.96	6.46
Buy-to-let					
Asset value in £m	193.3	242.3	444.3	1190.4	1561.3
% of book	1.02	1.17	1.99	5.36	7.16
Self-cert					
Asset value in £m	125.7	135.4	173.8	299.2	332.4
% of book	2.41	2.48	3.08	5.56	6.5
Other (incl. Standard)					
Asset value in £m	66.3	74.3	96.3	116.3	101
% of book	1.41	1.5	1.91	2.43	2.56
Panel B	**Analysis of accounts 3+ months in arrears: acquired**				
Total					
Asset value in £m	189.8	279.2	471.4	798.1	1012.8
% of book	2.8	3.49	5.72	9.26	11.83
Buy-to-let					
Asset value in £m	26	57.6	118.8	231.3	310.7
% of book	1.64	2.65	5.06	8.6	11.33
Self-cert					
Asset value in £m	85	98.5	173.1	285.5	365
% of book	3.02	3.23	5.16	8.56	11.45
Other (incl. Standard)					
Asset value in £m	78.8	123.1	179.5	281.3	337.1
% of book	3.32	4.41	7.07	10.85	12.82

Table D.3: Arrears by Source June 2007 – June 2009

As at		31 Dec 2004	30 Jun 2005	31 Dec 2005	30 Jun 2006	31 Dec 2006	30 Jun 2007	31 Dec 2007	30 Jun 2008	31 Dec 2008	30 Jun 2009
Residential non-performing loans											
Arrears over 3 months											
Asset value	£m	198.2	292.9	378.1	448.8	498.9	575.1	731.2	1185.8	2404	3007.5
Proportion of book	%	0.84	1.23	1.45	1.58	1.6	1.62	1.85	2.87	5.87	7.63

Table D.4: Residential Non-Performing Loans 2004 – 2009

	2006		2007		2008		2009	
	June 30	Dec. 31	June 30	Dec. 31	June 30	Dec. 31	June 30	Dec. 31
Residential								
Organic								
Buy-to-let	64	65	66	67	68	68	68	72
Self-cert	16	18	18	17	17	17	17	16
Other	20	17	16	16	15	15	15	12
Total	100	100	100	100	100	100	100	100
Acquired								
Buy-to-let	24	25	23	27	28	31	28	33
Self-cert	46	46	42	38	41	39	41	37
Other	30	29	35	35	31	30	31	30
Total	100	100	100	100	100	100	100	100
All Mortgages								
Residential	85	86	88	97	98	98	98	98
Commercial & Housing Assoc.	15	14	12	3	2	2	2	2
Total	100	100	100	100	100	100	100	100

Table D.5: B&B Product Mix 2005 – 2009

Figures

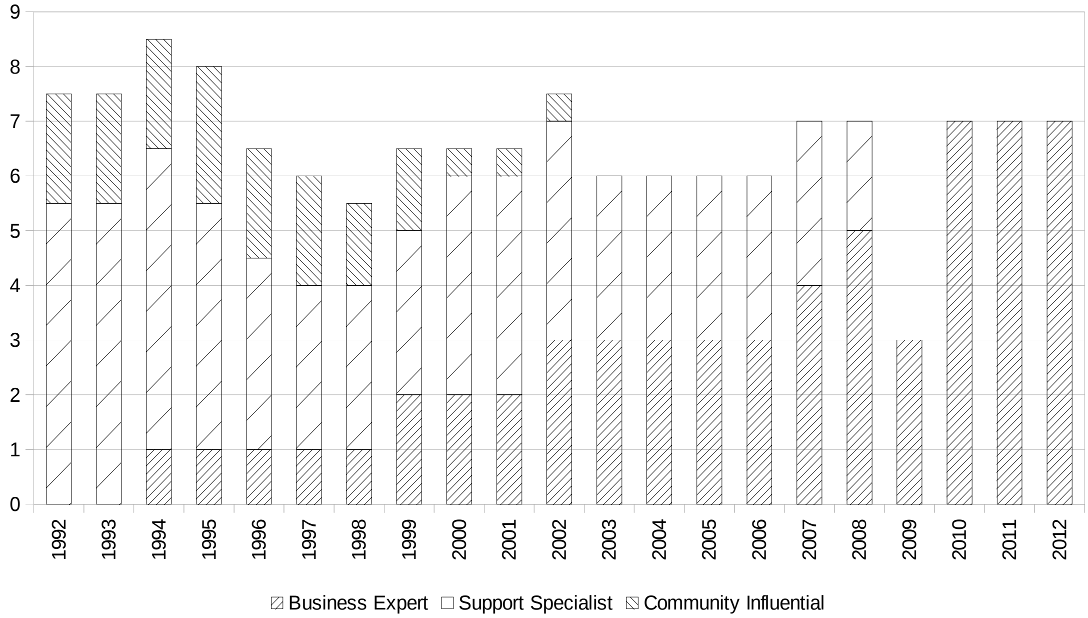


Figure D.1: Board Composition (NEDs) 1992 – 2012

Bradford & Bingley is a UK based financial services business, focused on providing specialist mortgages and savings products.

When our Company was first set up its purpose was clear: to build a better future for the people of northern mill towns. In 1851, we helped our first customer, John Abbey, build a better future for himself and his family by lending him money to buy his own home. We're very proud of our heritage. In the Bradford & Bingley Group we know today this heritage continues to shape our business and its purpose. We're still building a better future and we're building it for people right across the UK.

Figure D.2: B&B Annual Report 2006

E Board Ages 1995 – 2010

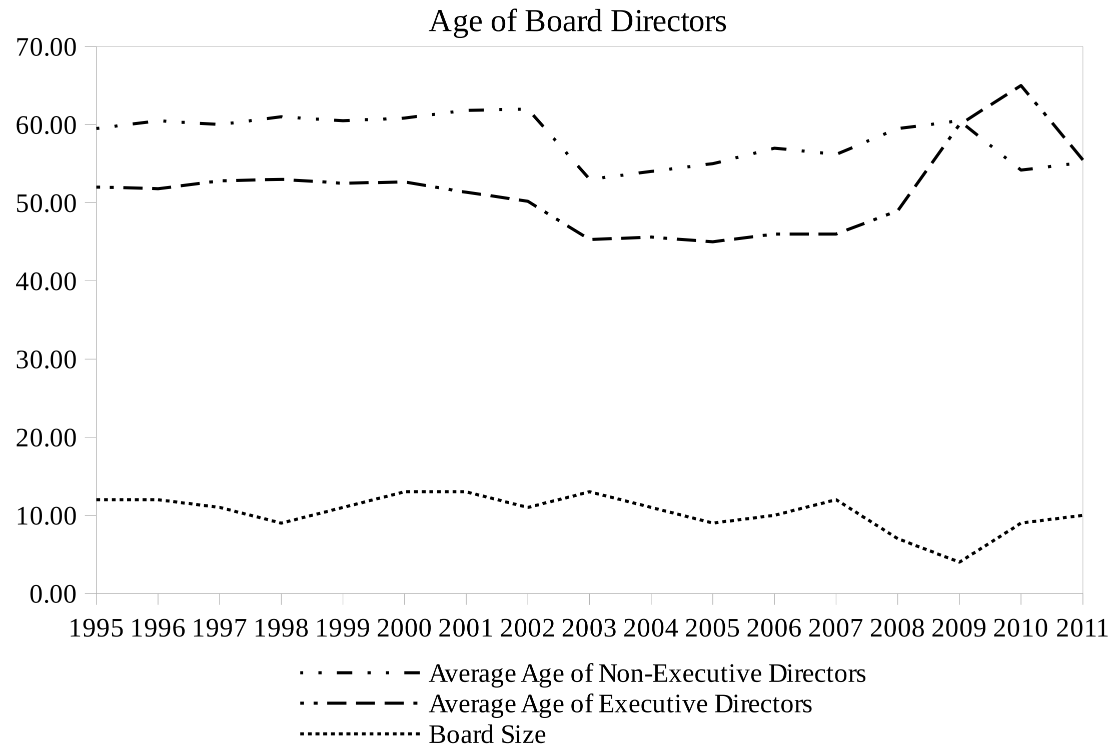


Figure E.1: Age of Directors: 1995 – 2010

Abbreviations

ALCO	Asset and Liability Oversight Committee
AGM	Annual General Meeting
B&B	Bradford & Bingley
Big 4	The Big Four (Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers)
BSA	Building Societies Association
BSC	Building Societies Commission
CE	Chief Executive
CEO	Chief Executive Officer
EGM	Extraordinary General Meeting
FCA	Financial Conduct Authority
FSCS	Financial Services Compensation Scheme
FD	Finance Director
FSA	Financial Services Authority
GMB	General Management Board
HBOS	Halifax Bank of Scotland
IoD	Institute of Directors
MI	Management Information
MIS	Management Information Systems
NED	Non-Executive Director
NRAM	Northern Rock Asset Management
P&L	Profit and Loss
PRA	Prudential Regulation Authority
SID	Senior Independent Director
TMT	Top Management Team
UKAR	The UK Asset Resolution Trust

VC	Vice-Chairman

Glossary

Asset & Liability Oversight Committee (ALCO)

The Asset-Liability Committee (ALCO) is responsible for assisting the Board in fulfilling it's responsibilities relating to the interest rate risk, capital adequacy, liquidity and balance sheet growth strategies of the organisation. The committee monitors the Bank's interest rate risk, as a whole, within certain tolerance levels while ensuring adequate liquidity and capital. It is the second powerful committee within the 'executive branch' of the board and at all times, membership consists of the Chief Executive, the Finance Director, the Director of Risk & Compliance, and the Director of Operations.

'A spreads person'

A person with intimate knowledge of finance, in particular financial instruments.

Andrew Henry Longhurst

Andrew Longhurst, was the director of Lloyds TSB from June 1997 until April 1998 and Chief Executive of Cheltenham and Gloucester plc. As Chief Executive of Cheltenham and Gloucester, he was responsible for the development of the company into the UK's third largest mortgage lender, leading to its acquisition by Lloyds Bank to become the Group's specialist residential mortgage lender.

Building Societies Commission

The Building Societies Commission (BSC) was introduced as the supervisory authority of building societies in the 1986 Building Societies Act. The BSC remained the supervisory authority until the creation of the Financial Services Authority through the Financial Services and Markets Act 2000. The act consolidated the supervision and regulation of banks, building societies, insurance companies, friendly societies and investment firms into a single body.

Black Horse Estate Agents

Black Horse Agencies (one of the UK's leading estate agents with a national network of 370 offices), was acquired by the Bradford and Bingley Group on 1 April 1998. It was previously owned by Lloyds TSB, and the Black Horse name belonged to them. This move was part of Bradford & Bingley's shifting focus from lending to retail operations. Furthermore, to align the new business with its long-standing values of mutuality, the financial services group chose to rebrand the company as Bradford and Bingley Estate Agents. This meant a change of look, logo and name – except in Scotland, where the company elected to retain the goodwill of its Slater Hogg and Howison banner.

Close Bros

Close Brothers is a leading merchant banking group and specialist financial services group, providing lending, deposit taking, wealth management services, and securities trading. The company makes loans, trades securities and provides advice and investment management solutions to a wide range of clients. It is one of the largest 250 companies listed on the London Stock Exchange.

Institute of Directors

The Institute of Directors (IoD) is a Professional Institute with Members which promotes directors, develops corporate governance, represents members and business to government, enhances the climate for entrepreneurial activity and provides services to members. There are 34,500 members through 48 regional branches across the UK.

John Charcol

John Charcol is a mortgage broker providing mortgages from the whole of the market. It began operations in 1974 and grew to become one of the biggest players in the market. It was owned by Bradford and Bingley Building Society between 2000 and 2004.

Kensington plc

Kensington is an intermediary only lender and in 1995 was the first centralised lender to re-enter the market for subprime mortgages. It focuses on specialist lending for home buyers and landlords and have done so since 1995.

Leadership team

A leadership team operates in two ways: as a staff group handling the variety of issues involved in running a business unit and as a strategic group dealing with the longer term issues of survival, growth, and continuous improvement. As a ‘staff’ the leadership group meets regularly to share information, coordinate efforts across departments, and make the decisions needed to keep the organization running. In its ‘strategic’ capacity, the leadership group spends time working on issues of long-term importance, including common policies, common direction, and organizational development and improvement initiatives.

Management Information Systems (MIS)

MIS refers to the system providing technology-based information and communication services in an organisation as well as the organisational function that manages the system. It not only encompasses applications for transactions and operations, but also applications that support administrative and management functions, support organizational communications and coordination, and adds value to products and services. MIS, their correct functioning, and timely output are therefore crucial in contributing relevant information to support board decisions.

Myers Briggs Personality Test

The Myers–Briggs Type Indicator (MBTI) assessment is a psychometric questionnaire designed to measure psychological preferences in how people perceive the world and make decisions. It is based on four preferences, namely E or I (Extraversion or Introversion); S or N (Sensing or iNtuition); T or F (Thinking or Feeling) and J or P (Judgment or Perception).

Top Management Team

Consists of the board of directors (including non-executive directors and executive directors), managing director, president, vice-president, CEOs, chairman/chairwoman, etc. They are responsible for controlling and overseeing the entire organisation. The top management team also translates the policies into goals, objectives and strategies, and is entirely responsible for the success or failure of the organisation.

Senior Independent Director (SID)

The role of Senior Independent Director was proposed in the Higgs Review (2003) and incorporated into the Combined Code (2003). The senior independent director is appointment from amongst the independent non-executive directors on the board. As stated in the Higgs Review the role of the SID is to *"be available to shareholders, if they have reason for concern that contact through the normal channels of chairman or chief executive has failed to resolve."* Furthermore, they provide a sounding board for the chairman and have the responsibility of holding annual performance appraisal meetings with non-executive directors of the chairman's performance.

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